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# **CHECCHI AND COMPANY**

## **FINAL REPORT**

### **AFGHANISTAN**

### **INDUSTRIAL DEVELOPMENT PROJECT**

Contract Nesa - 526

Checchi and Company  
Washington, D.C.  
Kabul, Afghanistan

September 1974

CHECCHI AND COMPANY

FINAL REPORT

AFGHANISTAN  
INDUSTRIAL DEVELOPMENT PROJECT

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## SUMMARY

This is the final report covering the work of the Checchi team in assisting Afghanistan's private industrial development program from April 1971 to September 1974, a period of nearly three and one-half years. The team consisted of Mr. Thurston F. Teele, Chief of Party, Mr. Lawrence Morrison, Mr. Edward N. Eschbach (to June 1973) and Mr. Robert P. Marly (from January 1972). The work consisted of providing advice and assistance to the various agencies of the Government of Afghanistan charged with promoting private industry, and to the private investors, Afghan and foreign, who established industries under the program.

The main element in the private industry program in Afghanistan is the investment law which provides a variety of fiscal and other incentives to industry. The law is administered by an Investment Committee consisting of five ministers, and by institutions formerly called the Secretariat and Investment Advisory Center and now combined as the Investment Promotor and Development Department (IPDD). The Secretariat and IAC were under the Ministry of Commerce. After the merger, the IPDD was part of the Ministry of Mines and Industries and later the Ministry of Planning. Recently, a second key element, the Industrial Development Bank of Afghanistan (IDBA), has been added to provide financing to private industrial projects.

The private industry program has strong political overtones. Its progress and success depend heavily on the political and administrative atmosphere prevailing in

the government and country as a whole, and on the leaders directly responsible for the program. Developments in the program, and therefore the work of the advisors, have been closely tied in with political developments. Consequently, this final report is chronological in format, dividing the contract into six periods based on national or private industry program developments.

The work of the team can be divided into five functional areas: (1) policy advice and assistance, (2) industry promotion, (3) institution building, (4) training, and (5) other activities.

The provision of advice and assistance in establishing industrial development policy, and thereby helping the Investment Committee become a policy-making institution, has been a key function of the Checchi team. We have worked at all levels of policy from operating policy for the administration of the investment law to project selection and approval policy to broad overall industrial development policy as expressed in the investment law and national planning documents. Perhaps the most important single effort to help change basic policy was a two-year effort by Mr. Manly to help modify Afghanistan's customs tariff to make it more favorable for domestic industry. A second very important area, still in progress, has been the preparation of detailed draft regulations for the administration of the investment law. A third major policy effort has been extensive agribusiness research aimed at developing a policy of encouraging this type of development.

Industry promotion is the basic work of the industry development program. For this report, we have divided it into "day-to-day promotion," which involves the daily administration of the investment law, and "active promotion," which involves

publications, investor contact and other more "hard-sell" activities. Day-to-day promotion, involving the preparation and processing of applications for the benefits of the investment law, the actual provision of the benefits to approved projects, and technical assistance to industries in the program, has gradually been turned over to the Afghan staff, but the team and other advisors to the program were involved in this work during the entire contract.

Institution building work involved several institutions. Among the more important were the Investment Advisory Center (IAC), the Investment Committee Secretariat, the Investment Promotion and Development Department (IPDD), the Industrial Development Bank of Afghanistan (IDBA) and the Investors' Association.

From the arrival of the team in April 1971 to its merger into the IPDD in May 1973, the IAC sharply enlarged its staff, obtained more foreign advisors, vastly improved its physical plant and increased its scope and improved its quality of work. Mr. Morrison took the lead in achieving these improvements. The Secretariat, which concerned itself only with the routine administration of the investment law, was not the subject of such intensive effort by the team, but Mr. Eschbach did work closely with the staff and, before his departure, prepared a detailed management study and recommendations, some of which were implemented.

Following the creation of the IPDD in May 1973 from the merger of the Secretariat and IAC, Messrs Teete and Morrison worked closely with its new President, Mr. Younis Rafik, on planning and staffing. A hiatus in the overall program following the change of government delayed the development of the institution. With the approval of the new investment law in May 1974, the IPDD was transferred to the Ministry of Planning and the institution building efforts began anew.



The Checchi team, and especially Mr. Eschbach, was heavily involved in assisting the Government of Afghanistan with the creation of the Industrial Development Bank (IDBA). Mr. Eschbach was the chief advisor to the Provisional President from January 1972 through March 1973 when the IDBA was formally established and the foreign advisory assistance was taken over by a management team provided by the World Bank.

Mr. Teele was able to use an industrial exhibition which he helped organize in April 1972 to promote the establishment of an Investors' Association to give the investors under the industry development program a forum for presenting their joint views and protecting their interests.

The Checchi team engaged and supported a variety of training efforts directed both at Afghan staff members in the program and at the private investors and their employees. Both on-the-job training and formal training were used. The team did not program any significant participant training outside the country because we felt that with an insufficient number of qualified staff in the program, sending staff members away for extended training could not be justified.

The team engaged in numerous other activities related to the overall goals of the industry development program and the contract. The most important has been Mr. Morrison's extensive work intermittently over the past year as the chief advisor on petroleum matters. The work should lead to the introduction of foreign private enterprise in the exploration for petroleum resources in the southern part of the country with very significant benefits to the Afghan economy.

The private industry program is considered a successful program. There are now about 100 industrial establishments operating under the investment law with a

total investment of approximately Afs. 1,200,000,000 (currently \$20,000,600), a significant sum under the circumstances. The impact of the Checchi team and of the numerous other foreign advisors who have worked on the program has been crucial.

At present the program is ready to move forward under the new investment law and in its new location in the Ministry of Planning. Considerable foreign assistance is still required although, with the Afghan staff having taken over several aspects of the work, the required mix of assistance has changed. Unfortunately, with the departure of the Checchi team on September 15, 1974, no continuing assistance is immediately available. At this writing, arrangements are nearly complete to retain Mr. Morrison on an interim basis for nine and one-half months, three and one-half months under an extension of the current contract with AID and a further six months under a UN contract. In the meantime, the Ministry of Planning is requesting the services of a team from the United Nations Industrial Development Organization (UNIDO).

We believe that our experience under this contract represents a successful technical assistance effort in a demanding, but very rewarding field. We have learned and have had previous lessons confirmed regarding technical assistance to private industry programs, the problems and approaches in providing advice and assistance in the delicate policy area, building institutions and working with private investors in Afghanistan. Some of these lessons may be of general interest.

## CHAPTER I

### INTRODUCTION

Checchi and Company provided advisory assistance to Afghanistan's private sector industrial development program for a period of nearly three and one-half years, from April 25, 1971 through September 15, 1974. Assistance was provided by a three- (and at times four-) man team of consultants backed up by supervisors and staff members of Checchi's office in Washington, D. C. The work followed on work carried out by teams provided by Thomas H. Miner & Associates of Chicago, Illinois between 1964 and 1971. In both cases, the work was part of the AID program in Afghanistan and financed through contracts with AID.

Assistance to a private industrial development program is atypical of AID projects in a number of ways, some of which have been brought out in previous reports. For example, the team has worked as advisors to Afghan Government ministries and the project agreements have been with the Government of Afghanistan. However, much of the team's most important work has been with the private investors, Afghan and foreign, who have taken up the opportunities created by the investment law and the overall program. By the end of the contract, there were about 100 factories operating under the program. The fact that the interests of the Government and the investors do not always seem to coincide, although ideally they should do so, is one of the more interesting aspects of this type of project.

This is the final report on the work of the Checchi team under AID contract nesa-526.

A. Contract Requirements Regarding the Final Report

Contract nesa-526, as amended on July 1, 1973, contains the following language regarding the final report.

"4. Final

Sixty days prior to the departure of the field team from Afghanistan, the contractor shall submit a draft final report in ten (10) copies to the Industrial Development Division, USAID/A for review. Not later than fifteen (15) days prior to the departure of the field team from Afghanistan, the contractor shall submit the final report in twenty-five (25) copies to the Industrial Development Division, USAID/A and three (3) copies to the Contracting Officer. The final report shall cover the various activities since the inception of the contract and will provide a complete descriptive listing of the activities, problems, accomplishments against project targets, and recommendations regarding unfinished work and/or program continuation."

The draft of the final report, in detailed outline form, was submitted to Dr. C. H. Zondag, Chief of the Private Enterprise Division, on July 20, 1974, just before his departure. A copy was also submitted to Mr. Ernest Barbour, Acting Director, who took Dr. Zondag's place as the officer responsible for the Checchi contract. Since the Checchi team is scheduled to depart Afghanistan on September 15, 1974, that submission essentially satisfied the contract requirement regarding a draft final report.

The contract language specifies a descriptive listing of all activities of the team since the inception of the contract. This report, therefore, follows a descriptive listing format. Every significant activity is covered but without extensive narrative. The report is not a repetition or a summary of the six semi-annual reports

submitted by the team, the last one dated July 1974. Readers desiring more detail are referred to those semi-annual reports.

Readers are also referred to a very detailed report on the overall 10-year private enterprise program carried out by USAID mainly through the Miner and Checchi teams from 1964 to 1974. This report by Dr. C. H. Zondag, Chief of the Private Enterprise Division, entitled Review and Documentation of the Private Enterprise Program in Afghanistan, 1964-74 (AID Projects 087 and 116), was completed just prior to Dr. Zondag's departure in July 1974. It provides a detailed account of the 10-year effort including evaluations from several points of view. In preparing the present final report, we have avoided overlapping with Dr. Zondag's report to the extent possible. Rather, the report concentrates on the work of the Checchi team based on the goals set out in the contract. The discussion of Checchi activities is closely tied to the evolution of the program, which in turn followed political and economic developments in Afghanistan.

#### B. Goals of the Checchi Activity

The goals of the Checchi activity are set out in the contract and in the amendment approved July 1, 1973. Since the two statements differ, both are discussed here.

The original contract called for a wide variety of activities, including (1) assisting the Investment Committee to become a policy-making institution, (2) helping to systemize the review of investment applications, (3) improving the assistance given to applicants in the preparation of their applications, (4) helping to build the Investment Advisory Center, (5) providing technical assistance of various kinds as needed, and

(6) acting as a catalyst in other areas to help create a better overall investment climate. The contract was amended twice. Amendment #1 extended the contract to September 15, 1974 and restated the goals. Amendment #2 added the services of Mr. Manly as a research advisor.

The main changes between the listing of the original contract and those in amendments #1 and #2 are first, the deletion of direct technical assistance work to the investors of the industrial extension type, which was taken up by Mr. George Thomas, USAID direct-hire industrial engineer, and work on the Industrial Development Bank and Industrial Park, which was taken over by the World Bank and, to an extent, by Government of India bi-lateral assistance, and second, the specific addition of an agri-business priority through research projects.

A more detailed discussion of the contract language regarding goals, as well as those given in the team's work plan in December 1971, is given in Appendix I.

Although the lists of goals in the contract and amendments are clear and have provided the guidelines for the activities of the Checchi team during the contract period, it is more convenient to list and describe the work done under functional headings.

C. Checchi Fields of Activity - Breakdown by Five Functional Headings

The five functional headings or activities used in this report are (1) assistance in developing industrial policy, (2) industry promotion activities, (3) institution building, (4) training, and (5) other activities.

### 1. Assistance in Developing Industrial Policy

This has been an important element of the Checchi work, especially in the eyes of USAID and AID/W. It consists of encouraging and assisting the Investment Committee to deal on the policy level, encouraging the establishment of units to help formulate policy, and performing staff work for the development of specific policies.

### 2. Industry Promotion Activities

This work consists of (1) day-to-day promotion activities such as helping the staff with the routine administration of the investment law, and (2) active promotion activities, i.e. positive efforts to attract private investment, such as preparing pamphlets, public relations activities, direct investor contact, etc.

### 3. Institution Building

The long-term success of the private industry program depends heavily on the creation of strong administrative and support institutions, which Afghanistan is only gradually developing. Considerable progress was made during the period of the Checchi contract. The Checchi team worked with six different institutions in a major way, plus several others.

#### a. The Investment Committee

The Investment Committee is the decision-making body for the investment program. It is made up of five ministers and meets periodically to approve investment applications and settle other matters brought before it by the Secretariat or Investment Promotion and Development Department. The Checchi team has worked closely with the Committee during most of the contract period.

b. Investment Advisory Center (IAC)

The IAC was established in 1970, before the arrival of the Checchi team, to act as the industrial extension organization for the investors and the service organization for the overall program. It was gradually strengthened through the efforts of Mr. Morrison and other advisors until June 1973 when it was merged into the Investment Promotion and Development Department.

c. The Investment Secretariat

This office performed the routine paperwork for the implementation of the program until it was merged into the IPDD in June 1973. Messrs Teele and Eschbach worked with the Secretariat.

d. The Investment Promotion and Development Department (IPDD)

Formed from the merger of the above two institutions in June 1973, this Department, under Mr. M. Younis Rafik, has since been the main institution administering the investment law under the authority of the Investment Committee.

e. Investors' Association

A trade association of investors operating under the investment law, established in April 1972 with the help of the Checchi team.

f. Industrial Development Bank of Afghanistan (IDBA)

A private bank, owned by several foreign banks and Afghan investors and assisted by the World Bank, the IDBA is the only financing institution specifically established to finance private industrial development in Afghanistan. It was formally established in March 1973. For more than a year prior to its establishment, Mr. Eschbach devoted much of his time to helping the Government get the bank established.



Since then, the Bank has had an internationally-recruited management team under UNDP financing.

g. Other Institutions

Other institutions which the team worked with, or through, include:

- Industrial Park and Indian Industrial Estate
- Kabul University: Faculty of Engineering
- Statistics Department, Ministry of Commerce
- Customs Department, Ministry of Finance

4. Training

The Checchi team was involved in three types of training: on-the-job, formal classroom or seminar training and participants. The participant training was limited -- we sent no long-term participants under the USAID program because we felt that we lacked adequate staff for both the present program and for long-term training. Other donors frequently sent staff members of the program as participants.

5. Other Activities

Although the above four functional activities constituted the bulk of the team's activity, others of importance to the program were undertaken from time to time. They are listed at appropriate places in the report.

D. Private Industrial Development Program -- 1971-74: Six Periods

The work of the Checchi team, and of other advisors assigned to the private industrial development program, has been closely tied to the ebbs and flows of the program. The industrial development program is an Afghan program. It is an

economic development program of great importance and has been politically sensitive. Progress of the program, and therefore the success of the advisors, has been affected, at times positively and at times negatively, by political developments in the country. Therefore, it gives a better picture of activities under the contract if they are listed and described in the context of these political developments.

The nearly three and one-half years of the Checchi contract can conveniently be divided into six periods. These are made up of four distinct periods of Afghanistan's recent political history which, in two instances, have been further divided by key events in the private industry program itself.

1. Last Months of the Etemadi Government, April-July 1971

A short period right after the arrival of the team in Afghanistan. Since the Government was on the way out, the private industry program was in a hiatus.

2. The Zahir Government, July 1971 - December 1972

The longest period, and one in which the program was very active.

3. The Shafiq Government, First Phase, Ministry of Commerce, December 1972 - May 1973

Another active period in the program. In May 1973 the program was shifted from the Ministry of Commerce to the Ministry of Mines and Industries. Since this affected the program and the work of the Checchi team in major ways, the Shafiq Period is divided in two.

4. The Shafiq Government, Second Phase, Ministry of Mines and Industries, May 1973 - July 1973

A period of re-organization, including the merger of the IAC and the Secretariat into the IPDD.

5. After the Coup, Until the Approval of the New Investment Law, July 1973 - May 1974

During this period, the program was in a hiatus while the new law was being worked out.

6. After Approval of the Republican Investment Law, May 1974 - Present

The present period, in which the program has started moving forward actively again, based on the new law and a new ministerial location for the program - the Ministry of Planning.

E. Format of Final Report

Having divided the work of the Checchi team in five functional activities and the three and one-half years of service into six periods, the final report is a combination of the two. In the main body of the report, Chapter II, each of the six periods is covered in turn. Within each period, the descriptive listing of Checchi team activities is given by functional activity grouping. The listing is put into context by a brief discussion of the private industry program developments and the overall situation and role of the foreign advisors during the period. The overall report format, therefore, looks like this:

Summary

Chapter I - Introduction

Chapter II - The Program and Activities of the Checchi Team

For each of the six periods:

- Private Sector Program Developments
- Overall Role of the Foreign Advisors
- Specific Checchi Team Activities (descriptive listing)

Chapter III - Future Work Needed and Conclusions

## CHAPTER II

### AFGHANISTAN'S PRIVATE INDUSTRIAL DEVELOPMENT PROGRAM, AND THE CHECCHI TEAM, APRIL 1971 - SEPTEMBER 1974

#### A. Last Months of the Eremadi Government - April 1971-July 1971

##### 1. Private Sector Program Developments

When the Checchi team arrived in Afghanistan in late April 1971, the Government of Prime Minister Nour Ahmad Eremadi was under attack in Parliament. It resigned in mid-May, although the former ministers continued in an acting capacity. The new Government of Prime Minister Abdul Zahir was appointed on July 5. For the next three weeks, to July 26, Parliament conducted a vote of confidence debate which the new ministers, including the new Minister of Commerce Mr. Mohammad Aref Ghaussi, were expected to attend. After the successful vote of confidence on July 26, the Government was able to get down to business.

During the period there were no Investment Committee meetings so no new projects could be approved or other decisions made. The last Committee meeting under the Eremadi Government was on April 20. Nevertheless, the day-to-day work of the program continued and the investment climate remained good. On June 6 the Senate approved the Industrial Development Bank Law which the lower house had approved earlier. There was a brief flurry of threat to the investment climate when the Riased-e-Dewar (Prime Ministry Audit Unit) resurrected charges against the Secretary of the Investment Committee, Mr. Bayat, and some of the investors regarding

misuse of imported raw materials, but it was short-lived. Thus, in the end, the incident tended to strengthen the investment climate.

Statistics of the program at the beginning and end of the period are as follows:

|  | <u>Beginning<br/>April 25, 1971</u> | <u>Ending<br/>July 31, 1971</u> | <u>During<br/>Three-month<br/>Period</u> |
|--|-------------------------------------|---------------------------------|--|
|--|-------------------------------------|---------------------------------|--|

|                      |     |     |   |
|----------------------|-----|-----|---|
| Projects Approved    | 153 | 153 | 0 |
| Projects Implemented | 53  | 55  | 2 |

## 2. Overall Role of the Foreign Advisors

When the Checchi team arrived, the Miner team had been gone about four months. Mr. Norwood Sallee of the Miner team had stayed on during the interim under a special arrangement with the Asia Foundation, and Mr. George Flores of USAID was helping to fill in as well. Four other advisors were also active in the program: Mr. Volker Butow (German bi-lateral), Mr. Alain Soulard (French bi-lateral), Mr. John Cockcroft (Textile Advisor, U.K.-Colombo Plan, bi-lateral), and Mr. D. M. Guha (Leather Advisor, ILO). These four advisors were working at the IAC, the first two concentrating on investment applications and day-to-day administration and the latter two in their specialties.

The Checchi team arrived on April 25 (Teele and Morrison) and May 5 (Eschbach). The presence of the other advisors and the partial hiatus in the program itself allowed the team to devote much of the first three months to orientation, field trips and language training. At the same time some initial work on the program itself was also done, as described in the following section.

### 3. Specific Checchi Team Activities

#### a. Assistance in Developing Industrial Policy

Virtually no work was done in this area because of the newness of the team members in Afghanistan and the fact that the Investment Committee was not active.

#### b. Industry Promotion Activities

Considerable initial work on day-to-day promotion activities was carried out, much of it together with the other foreign advisors.

— Several investment applications prepared by the other advisors were reviewed on behalf of the Secretariat pending presentation to the new Investment Committee.

— The work of reviewing and certifying invoices for duty-free import by factories operating under the investment law was taken over by Checchi on the arrival of Mr. Eschbach.

— Direct technical assistance was given to at least three investors, Messrs Wais (detergents), Maqsudi (rayon spinning) and Rokai (honey producing).

Work in the field of active promotion was limited to discussions with potential investors. A significant number visited the team and were given help.

#### c. Education Building

Mr. Morrison began his work with the IAC. Among other things, he did the groundwork for base line surveys and, with other members of the staff, prepared a detailed definition of capital goods needed for the work of the Secretariat. Generally, however, the tiny Afghan staff (three men, no director) and inadequate

facilities prevented much progress in building up the IAC until the following period when these problems were attacked and partially solved. Messrs Teele and Eschbach began working toward strengthening the Secretariat, mostly through helping with the day-to-day promotion activities described above.

d. Training

No significant activities during the first period.

e. Other Activities

No significant activities during the first period.

B. The Zahir Government, July 1971-December 1972

This period of about 16 months was the longest of the six during the Checchi contract, and one in which a great deal of progress was made in the industrial development program.

1. Private Sector Program Developments

The Zahir Government was a period of relative political stability in Afghanistan. The country was suffering from the effects of drought during much of the time, but toward the end the winter snows began to fall heavily, presaging a good year for 1973. The Investment Committee under Mr. Ghaussi was very active, meeting a total of 25 times in the 16-month period and approving 31 projects while disapproving six. There was great physical progress too — 28 projects were implemented and began operations. Generally, the investment climate was considered very good. The following are the basic statistics for the period:

|   | <u>Beginning<br/>August 1, 1971</u> | <u>Ending<br/>December 10, 1972</u> | <u>During<br/>Sixteen-month<br/>Period</u> |
|---|-------------------------------------|-------------------------------------|--|
| Projects Approved                                   | 153                                 | 184                                 | 31   |
| Projects Implemented<br>(net of permanent closings) | 55                                  | 83                                  | 28   |

Although the Investment Committee was very active, there were some disquieting signs. The Investment Committee tended to be very conservative in its decision-making. It placed conditions on approvals that showed a lack of trust in the investors. The Committee was reluctant either to act on minor implementation questions or to delegate them. The Minister of Commerce (and Chairman of the Investment Committee) was very interested in policy issues and anxious for the Committee to move into this area. The team welcomed this chance to meet its policy assistance mandate. The Committee, however, proved reluctant to deal with most of the policy issues placed before it. Finally, there was a notable hardening of bureaucratic arteries in the program as the staff of the Secretariat seemed to get more cautious and harder to convince in individual cases. All of these developments presented the Checchi team and the other advisors with a challenge and a very heavy workload.

## 2. Overall Role of the Foreign Advisors

During this 16-month period the foreign advisor group was relatively large and strong and was active in all phases of the industry promotion effort. At the start of the period, in addition to the three-man Checchi team, there were Messrs Butow, Soulard, Cockcroft and Guha. Shortly thereafter, Mr. Cockcroft decided that he had completed his work on national textile policy and organization and left.



In September 1971 Mr. Guha received a new contract, this time from UNIDO, and became full-time on the industrial development program at the IAC. In December 1971 arrangements were made for two Peace Corps Volunteer (PCV) accountants to join the IAC. In January 1972 Mr. Manly joined the Checchi team to carry out research projects related to industry promotion, tariff, and policy. In March 1972 Mr. Markin of UNIDO, a food processing expert, joined the IAC, and in August 1972 Mr. George Thomas, a USAID industrial engineer, arrived. From then until the end of the Zahir Government period, the program had a total of 11 foreign advisors working for it. All but Messrs Teele, Eschbach and Manly were housed in the IAC.

Because of the seven non-Checchi advisors were either specialists or relatively junior, the Checchi team had the task, first by default and later assigned by the Minister of Commerce, of pulling the effort together. This was done with good cooperation from most of the other advisors, but divergent views complicated the task. At the same time, the Checchi team saw the opportunity to pursue a great many fronts actively and did its best to take advantage of the opening. It was a varied and very active period for the team, as the following section shows.

### 3. Specific Checchi Team Activities

#### a. Assistance in Developing Industrial Policy

The team was able to make major inputs to industrial development policy during this period.

(1) Project Priorities: Starting with a meeting of the advisors with Minister Ghaussi on August 1, 1971, the advisors had several early policy meetings with the Minister. One of these came a number of recommendations including a paper on

project priorities, tying the approval process closer to policy considerations, which was worked out in advisor meetings and drafted by Mr. Morrison. The paper was presented in October, approved in January, and followed up in May 1972. Although the IAC used many of the concepts in its work, the proposals were never dealt with by the Committee.

2) Overall Policy Through Planning: Mr. Teele was able to take advantage of a request to serve on a Ministry of Commerce planning committee to draft for the committee a lengthy contribution to the Fourth Plan on private industry. The paper consisted mostly of policy recommendations, and many of them eventually got into the approved Fourth Plan. This approach turned out to be an effective route, as well as the only route, to influencing overall industrial development policy. It was repeated in subsequent years through preparing drafts for annual plans.

3) Operating Policy: The team was able to work out and present to the Minister several recommendations which grew out of problems in the day-to-day implementation of the investment law. These operating policy recommendations were designed to solve common problems faced by the investors. Examples include:

- Recommended policy for sensitive raw materials and procedures for storing them in bank warehouses, thereby reducing the number of raw materials subject to burdensome and expensive bank storage.
- Recommended procedures for handling project expansions.
- Recommended procedures for avoiding over-capacity and for rejecting patently uneconomic projects before the preparation of detailed applications.

Some of these recommendations were approved; others were not dealt with in a definitive way during the period.

(4) Regulations: In November 1972 a draft set of regulations, encompassing the above operating policies and many more, was completed by Mr. Teele with inputs from most of the other advisors. The regulations were designed to complement the investment law and clarify, on the liberal side, many of the ambiguities which came up in administration. The draft was essentially an amendment to a set of existing, but much vaguer and briefer, regulations, and in the same format. This approach was used in the hopes that it would lead to rapid adoption of the regulations. Although the Minister of Commerce was very interested in these regulations and had the draft placed on the agenda for meetings, the Committee as a whole preferred not to tackle the subject.

(5) Customs Tariff: One of the most important policy issues involving the private sector is the customs tariff. The Afghan tariff in 1971 favored imported manufactured goods over domestic production by charging relatively high duties on imported raw materials and relatively low duties on finished goods. The tariff benefits of the investment law gave relief for only five years, a period which was coming to an end for the earlier factories established under the law.

The team began by making recommendations for tariff modification. There was widespread agreement that modification was needed, but it became clear that it would require a great deal of work which the various agencies of the Government were not prepared to do. Eventually the Ministries of Commerce and Finance requested Checchi's assistance in the modification project and AID agreed

to provide the services of Mr. Manly, already working with the team on other short-term projects.

Beginning in July 1972, there was a series of tariff policy meetings with the Minister of Commerce, the Deputy Minister of Finance (Mr. Jalallar) and others developing guidelines for Mr. Manly's work. Mr. Manly and his Afghan assistant, Mr. Lafrate, spent the balance of the period working on a comprehensive new tariff. The work was not completed until the following Shafiq Government, period and is discussed further below.

While work on the general revision was going on, Mr. Manly made a series of recommendations for immediate or emergency tariff changes to ease specific problems. Some of these were implemented by the Ministry of Finance.

b. Industry Promotion Activities

As in the case of policy assistance, the team was active in industrial promotion work during the period.

(1) Day-to-Day Promotion: Much of the day-to-day work was performed by the other advisors and the Afghan staff, but the team, especially Mr. Eschbach, also played a major role.

— Mr. Eschbach was the principal advisor working with the Secretariat to approve invoices for duty-free importation. As noted above, some ideas for policy recommendations arose from this work.

— He was also in charge of working with Afghan staff members to issue implementation certificates to projects which were ready to begin operations. Since the period saw a high rate of project implementation, this important function took much of Mr. Eschbach's time.

— Mr. Teele prepared an application summary form designed to ease and to speed the work of the Committee in approving projects and to allow for ministers to sign approvals on the spot instead of waiting for the next meeting as had been the practice. It worked rather well.

— Also in order to speed the work of the Committee, the establishment of a sub-committee to review applications and to recommend Committee action was proposed. The sub-committee was to be made up of lower-ranking representatives (below minister or deputy minister) of each of the five ministries. In October 1972 a sub-committee was formed. However, it did not work as intended and by and large constituted another obstacle to be overcome on the way to project approval. The sub-committee was effective in delaying or recommending rejection of projects, but its approval did not seem to speed up or make certain approval by the Committee itself.

— The team did some application preparation work and more work reviewing applications prepared by the other advisors and Afghan staff members. However, most application work was done by the other advisors and Afghan staff members.

— Some direct technical assistance was provided to individual investors, mostly by Mr. Morrison. Examples include continued assistance to a detergent plant and the design of an improved low-cost loom for some of the carpet weaving firms. After his arrival in August 1972, Mr. George Thomas took over much of the technical assistance work.

(2) Active Promotion: Active promotion is the name we have given to activities, beyond routine administration of the investment law, designed to attract

and encourage investors to invest in Afghanistan. There was a great deal of such activity during the Zahir Government period.

— The team assisted Dr. Zondag in the preparation of a detailed investors' guide entitled Private Industrial Investment in Afghanistan which was published in October 1971. This contained a wealth of information of interest to prospective investors and was welcomed by investors, Afghan and foreign.

— With financial assistance from USAID, Mr. Teele and two Afghan officials, Messrs Bayat and Eltejaye, participated in a two-week investment promotion meeting in Singapore sponsored by UNIDO. The purpose was to introduce Afghanistan to prospective foreign investors and also to provide training for the Afghan officials. It was modestly successful in the first purpose (Afghanistan is a long way from Singapore, and quite successful as a training program since the trip also included visits to investment promotion institutions in Malaysia, Thailand and India.

— Under Mr. Morrison's leadership, a program of publishing statistics about the program, under the LAC rubric, was inaugurated. It included a Quarterly Status Report (later Semi-Annual) and Directory of Projects, and a detailed economic survey of active projects. The quarterly (semi-annual) reporting has continued but the economic survey was discontinued after the first volume because of lack of staff to do the work.

— Mr. Teele prepared and had published an illustrated investment brochure about the private investment program. The 28-page document was released in April 1972.

- An industrial map of Kabul was prepared by Eng. Saleem of the Checchi office and issued in September 1971. It has been very helpful to prospective investors and has been updated and re-issued twice, most recently in April 1974.

- At the request of the Minister, Mr. Teele worked with other advisors and staff to prepare a list of possible projects for use of potential investors. This list was approved, with some modifications, by the Committee in June 1972 and published in the local press.

- A more detailed Investment Opportunity List was prepared by Mr. Manly as one of his short-term assignments. This list includes background information and basic data about more than 20 projects. It has been very well received and a number of applications have resulted. The list was published in the summer of 1972.

- At the request of the Minister, Mr. Teele took the lead in organizing and running a very successful industrial exhibition at the Hotel Inter-Continental in April 1972. The exhibition gave the program a great deal of favorable publicity in Afghanistan, especially since it featured products of more than 30 industries operating under the law. It also gave the investors an unusual opportunity to get together and resulted in the establishment of an Investors' Association (see below).

- In August 1972 Mr. Teele also helped set up the general exhibit for the industrial development program at the annual independence exhibition.

- A two-page guide sheet was prepared for prospective investors to guide them through the steps to approval and implementation of their projects. This sheet, in English and Farsi, was completed in October 1972.

- During the entire period all members of the team were assisting the Afghan staff in making contacts and providing assistance to prospective foreign investors. This is a time-consuming task but important since foreign investors are not likely to pursue the idea of investment in Afghanistan without receiving a cordial welcome and rapid, accurate responses to their queries, whether in person or by letter.

As this summary listing makes clear, the Checchi team was heavily engaged in active promotion during the period. The effort was quite successful. Less successful were attempts to engage the Afghan staff in the effort. Most Afghan staff members of the Secretariat and even the IAC of the period did not consider these activities as part of their job and there was little pressure from above to encourage any other view.

c. Institution Building

(1) The IAC: The IAC experienced a very considerable development during the period of the Zahir Government.

- The Afghan staff was increased from a total of three to a total of nine, including a director, Mr. Aziz Rahim, who came on board in November 1971. Most of the new appointments resulted from constant urging on the part of the Checchi team backed up by Dr. Zondag. The Afghan staff became large enough and experienced enough to do a significant portion of the work of the Center, in contrast



to the beginning of the period when virtually all work was done by the foreign advisors. Still, the Afghan staff included several unqualified people and was subject to considerable instability during the period.

-- There was a commensurate increase in the scope of the IAC's work, made possible by the staff increase, the increase in foreign advisors, and other improvements mentioned below.

-- Mr. Morrison made a strong effort to help the IAC prepare an adequate operating budget instead of depending on whatever funds were included in the budget of the Chamber of Commerce, the parent organization. The first proposed budget, worked out with Mr. Rahim and presented to the Minister in January 1972, was tied into the IAC's actual plans and requirements and provided for full support for its many activities. The budget was not accepted as such by the Minister because the amount (Afs. 1.6 million) was considered far too high, but the resulting allocation was a significant increase over past allocations.

-- The physical facilities of the IAC, one large room in the Chamber of Commerce building, were hopelessly inadequate. The Checchi team and USAID made continual requests to the Minister for better space. Finally in April 1972, the Minister agreed to give the IAC a small building behind the Ministry plus two rooms in another, larger building behind the Ministry. The space was still inadequate but offered potential. Mr. Morrison prepared detailed designs for a renovation of the building, including the conversion of a coal store and cookhouse into offices, a replacement facility for those functions, and complete renovation of the rest of the building. Using local currency made available by USAID, he let the necessary contracts and

supervised the work to completion. By the end of the period, the IAC had quite adequate facilities and could accommodate its expanded staff and new activities.

(2) The Secretariat: Mr. Eschbach worked with the Secretariat during the entire period helping with its operations and making small improvements. With the development of the IAC, it became clear that the IAC would do the substantive work in the program and the Secretariat the routine day-to-day administration. Major improvements in this organization were not attempted until the following period.

(3) Investors' Association: It had long been felt that the private industry program would be strengthened if there was an Afghan pressure group in the picture. The Industrial Exhibition gave an opportunity for Mr. Teele to encourage the investors to establish such an organization and, between April and June 1972, the major organizational work was done. In addition to acting as a catalyst, Mr. Teele's main contribution was in helping to draft a charter and making other organizational suggestions. In the following months the team and other foreign advisors attended meetings of the Association and offered further assistance, but it became clear that the Association's leadership under Mr. Rahim Madjid and a seven-man board knew what they wanted and felt capable of achieving it without much help.

(4) Industrial Development Bank of Afghanistan (IDBA): For several years prior to the arrival of the Checchi team, the need for a financial institution serving the private industrial sector had been felt and efforts were made to establish such an institution. The necessary legislation was approved in the last days of the Etemadi Government, but a great deal of additional work was needed. The leading foreign advisor working on the bank was Dr. Glen Parker of the Robert Nathan team

at the Ministry of Planning. Dr. Parker asked the Checchi team to work with him and in August 1971 the joint effort began with a briefing of the Provisional President of the Bank, Dr. Aman, regarding the steps to be taken.

In November 1971 Mr. Eschbach began to devote a major portion of his time to assisting Dr. Aman and Dr. Parker in dealings with the World Bank and other interested banks whose assistance was needed to establish and operate the IDBA. In January 1972 there was an important World Bank Mission which Mr. Eschbach coordinated for Dr. Aman. He also prepared two important research papers on the market and financial projections for the proposed IDBA. In June 1972 Dr. Parker and the Nathan team left Afghanistan and Mr. Eschbach became the principal advisor to Dr. Aman. There was another important World Bank Mission in August. For the balance of the period, Mr. Eschbach continued to give briefings, carry out research, draft letters, etc. for and on behalf of Dr. Aman, all with the aim of getting the IDBA established as rapidly as possible. The Bank was actually established during the Musa Shafiq Government, in March 1973 (see below).

(5) Ministry of Commerce Statistics Department: Trade statistics are a vital input to an industrial development program and were the responsibility of this Department. Starting in December 1971, Mr. Teele worked with this Department to speed up and improve the production of these trade statistics. This included assistance with relations with IBM/Tehran, which was doing the data processing, and putting into operation a duplicating machine (with assistance from USAID) to print the statistics. The same machine also was used to print IAC material as a quid pro quo. Toward the end of the period, most of this assistance work was taken over by the Bureau of Census team at the newly-established Central Statistics Office.

(6) Industrial Park: The Miner team had done a great deal of work to begin development of an 800-acre industrial park outside of Kabul. Unfortunately in August 1971, shortly after the arrival of the Checchi team, the Government assigned responsibility for the park to the then non-existent Industrial Development Bank, thus effectively putting the project on the back burner. It has remained there. The only work by the Checchi team during the period was a proposal in December 1971 to begin charging rents on a modest schedule to the five plants on the land in order to regularize their status and collect some funds for development work. The recommendation was not accepted.

During the period Mr. Mohan, an Indian advisor in the Ministry of Mines and Industries, was working to establish a 35-acre Indian-style industrial estate on part of the land. This project is assisted by the Government of India. The Checchi team provided assistance to this effort, especially when a large survey mission from India was coming to determine the best types of industry to locate on the estate.

#### d. Training

1. Formal Training: In the fall of 1972 Mr. Morrison taught a course in management at the Faculty of Engineering, Kabul University. There were over 30 students and four staff members of the IAC auditing the course. It was quite successful.

2. On-the-job Training: All three advisors carried out on-the-job training in connection with their regular work.

(3) Participant Training: The above-mentioned trip to Singapore was the only participant training arranged by the Checchi team under the program. The team gave some assistance in connection with participant training offered by other donors for several IAC and Secretariat staff members. The Checchi team took the position that it would not promote participant training until there was adequate Afghan staff, qualitatively and quantitatively, at the IAC and Secretariat to permit the work to go on while trainees were away. The team did not feel that this condition was met.

e. Other Activities

(1) Private Enterprise Division: During a four-month absence by Dr. Zondag on home leave and consultations, November 1971-March 1972, Mr. Teele served as Acting Chief of the Private Enterprise Division.

(2) Special Assistance to Auditing Firms: Because the team considered the establishment of local offices by international auditing firms important to the industrial development program, special assistance was given to interested firms. This included several meetings with members of the Investment Committee to get the applications approved. By the end of the period two firms were established — Coopers and Lybrand and Kharna and Annadhanam. The two firms, especially Coopers, were very useful to the program as well as to their clients.

(3) Promotion of an Afghan Consulting Group: While working to build up the IAC to service industry, the team also tried to help the CECSAR consulting group at the University get into industrial consulting. Through Mr. Morrison's efforts a plant layout and installation contract with an industrial project was concluded.

Unfortunately it eventually developed that CECSAR was not qualified for this type of work and the job had to be finished by Mr. Thomas and Mr. Morrison himself.

C. The Musa Shafiq Government, First Phase, Ministry of Commerce, December 1972-May 1973

1. Private Sector Program Developments

This was another active period in the industrial development program although much shorter than its predecessor. No Minister of Commerce was appointed. Dr. Ali Nawaz, Deputy Minister, was acting. Dr. Nawaz was a founder of the private industry program and was familiar with and interested in it. However, since Dr. Nawaz was only Acting Minister of Commerce, it was decided that the Minister of Planning, Dr. Sarobi, would be Chairman of the Investment Committee. Dr. Sarobi delegated the day-to-day operation of the program to Dr. Nawaz. The arrangement worked well enough in the beginning, but Dr. Nawaz's absence from Cabinet meetings, which acting ministers do not attend, meant that the official most knowledgeable about the program was not present to represent it when important issues were decided. The Investment Committee met fairly frequently and approved many projects, but proved unwilling to tackle policy issues other than the tariff modification.

On the administrative side, the work of the Secretariat bogged down through excessive caution and other problems, which led Dr. Nawaz to request Checchi to submit a plan for reform. This was done but its implementation was overtaken by a decision to shift the program to the Ministry of Mines and Industries. This decision had been germinating during most of the period and was implemented in May 1973. The reasons for the move included a desire to have all industrial matters under one roof

and general dissatisfaction with the recent performance of the program in the Ministry of Commerce. The Checchi team had recommended that the operations within the Ministry of Commerce be improved instead.

The statistical results of this short period were quite good as is shown by the following.

|   | <u>Beginning</u><br><u>December 10, 1972</u> | <u>Ending</u><br><u>May 5, 1973</u> | <u>During</u><br><u>Five-month</u><br><u>Period</u> |
|---|--|-------------------------------------|---|
| Projects Approved                                   | 184  | 205                                 | 21  |
| Projects Implemented<br>(net of permanent closings) | 83   | 88                                  | 5   |

## 2. Overall Role of the Foreign Advisors

There was, unfortunately, a fall-off in the number of foreign advisors working on the program. Mr. Butow transferred to the Hendrikson team at the Agricultural Development Bank in December. Mr. Soulard transferred to the IDBA in March. In this position, he was still contributing to the private investment program, but not to the development of the IAC as before. And Mr. Markin, the UNIDO food processing advisor, left in April 1973 at the end of his second six-month tour. The program thus retained the four-man Checchi team, Mr. Thomas, Mr. Guha, and the two PCV accountants.

The program and the foreign advisors were physically scattered during this period. Messrs Teele and Eschbach and the office staff moved across town with the Ministry of Commerce. Mr. Morrison and the other advisors remained in the refurbished IAC quarters behind the former Ministry of Commerce. Mr. Manly

worked out of an office at USAID. However, the separation did not hurt the performance of the advisors or the program, especially since all quarters occupied were quite satisfactory.

Also during the period USAID decided to extend the Checchi contract for another year. After long negotiations lasting into the summer the final decision was to extend the team to September 15, 1974.

### 3. Specific Checchi Team Activities

#### a. Assistance in Developing Industrial Policy

(1) Operating Policies and Regulations: As soon as the new government was appointed, Acting Minister of Commerce Nawaz requested Mr. Teele to make up a package of information regarding the program and to distribute it to the three new Committee members. The package contained copies of all outstanding policy recommendations and the regulations, thus briefing the new Committee members on these issues. Subsequently the team was unsuccessful in getting these items considered by the Committee. The Committee instead concentrated on project applications, minor implementation issues, and shifting the program to the Ministry of Mines and Industries.

(2) Overall Industrial Policy: Mr. Teele took advantage of the need for a contribution to the 1352 annual plan to include a brief restatement of the policy recommendations in that format. The recommendations were included in the annual plan.

(3) Tariff Modification: Mr. Manly's completed tariff proposal was submitted to the Investment Committee, and subsequently to the Cabinet, in



April 1973. It was well received. A special committee was assigned to study it. In the meantime, at the urging of the Checchi team through Dr. Nawaz and Mr. Jalallar, Minister of Finance, a number of changes were made in raw materials and finished goods duties to ease certain special problems. As for the overall new tariff, political events intervened and a new tariff was not approved for another year.

b. Industry Promotion Activities:

(1) Day-to-Day Promotion: The team continued to assist these activities during the period but with increased Afghan participation.

— Mr. Eschbach continued his work assisting the Afghan staff to process invoices for duty-free importation and issue implementation certificates.

— Application work was increasingly taken over by trained members of the Afghan staff. Mr. Morrison and Mr. Teele continued to review applications before presentation. A major step was the introduction of application review at IAC staff meetings, described more fully below.

— During this period Mr. Teele was asked to participate to a greater degree than previously in the deliberations of the Investment Committee and sub-committee. In early January 1973, before the first Committee meeting under the Shafiq Government, the Acting Minister of Commerce was briefed on the pending applications in great detail. Mr. Teele was then made a de facto member of the sub-committee and attended all meetings to help explain the applications. He was asked to attend at least part of most Investment Committee meetings for the same purpose. This helped to achieve the relatively high rate of approvals during the period.

— Direct technical assistance was in the hands of Mr.

Thomas, Mr. Guha, and their counterparts. Mr. Thomas solved a number of quality control problems and was able to help investors lower costs in many areas. He also helped to find local sources of previously imported materials and components.

(2) Active Promotion: Except for continued issuance of the Semi-Annual Status Report and Directory, there was no further publications work during the period.

Investor contacts continued at a high level and sometimes involved substantial help. For example, at the request of the Acting Minister, Mr. Teele worked with the investor in the proposed German match plant to draft a special agreement with the government. A satisfactory agreement was reached after numerous drafts.

c. Institution Building

(1) The IAC: Although the IAC suffered a reduction in foreign advisors, the institution continued to make progress during the period.

— In spite of continual efforts by Mr. Morrison, it was not possible to achieve a net increase in the Afghan staff. However, one new staff member, Mr. Leqa, was obtained as an engineer-counterpart for Mr. Thomas. Another favorable development was the hiring of two engineering students during vacation to introduce them to and whet their appetites for industrial development work. This was started through Checchi's local currency budget but the Acting Minister was unwilling to continue the practice using IAC funds. Efforts to increase the number of engineers assigned to the IAC failed reportedly because recent graduates were still in or subject to military service.

— A second annual budget was prepared under Mr. Morrison's leadership. Again, it was a good planning and training exercise for the Director and the Ministry. It resulted in an approved budget of Afs. 932,000, about 60 percent higher than the original budget.

— Through Mr. Morrison's efforts and USAID local currency funding, the renovation of the IAC building was completed with the installation and furnishing of a library/conference room. This was a much-needed facility.

— At the beginning of the period, weekly IAC staff meetings, including Afghan staff and advisors, were instituted and continued throughout the entire period. These had several beneficial results. The quality of applications and other work was improved by the discussion and subsequent modification. The recommendations for approval or non-approval of projects were shifted from a single advisor to the IAC as a whole. The Afghan staff and foreign advisors both received the benefit of detailed, and sometimes sharp, discussions on the projects.

— In a related development resulting from Mr. Eschbach's recommendations on the Secretariat (see below), the duty of presenting applications to the sub-committee and Investment Committee was transferred from the Director of the Secretariat to the Director of the IAC. This permitted the office which prepared the applications to present them and required the Director to become much more familiar with the projects than had been the case.

— The Checchi team, especially Mr. Morrison, made a concerted effort to gain more stature and autonomy for the IAC. Some of the above steps were directed to this goal. The main thrust in this direction was the preparation of a

detailed proposal for charging fees for some of the IAC's work. The previous Minister, Mr. Ghaussi, had agreed to the idea in principle and had requested that a detailed proposal be prepared. Mr. Morrison prepared a fee proposal at the beginning of the period. Unfortunately, the Acting Minister did not believe he was in a position to push the proposal so it did not go beyond his desk.

(2) The Secretariat: The main effort on behalf of the Secretariat was the preparation by Mr. Eschbach of a detailed management study of the Secretariat with ten recommendations for change in its operating procedures. The team had wanted to do such a study for some time but needed pressure from above to get cooperation from staff members. Complaints about the Secretariat from investors led the Deputy Minister to request the study and provide the staff motivation.

The study proposed that certain activities be terminated because they were either undesirable or impossible with existing staff. Others, such as initial dealings with the investors and application translation and presentation, were recommended for transfer to the IAC. Streamlined procedures were proposed for the rest of the activities such as processing requests for duty-free importation. Dr. Nawaz accepted the recommendations but implementation was halted by the shift to the Ministry of Mines and Industries.

(3) Investors' Association: The Association continued active during the period. Checchi assistance was limited to helping to prepare a major position paper for presentation to the government, based largely on ideas of the Association members.

(4) Industrial Development Bank: The efforts by Mr. Eschbach and others to establish the IDBA culminated with its establishment in March 1973.

From the beginning of the period in December 1972 through the March meetings which established the Bank, Mr. Eschbach devoted most of his time to the final steps. These included preparing the IDBA's application under the investment law, assisting the IBRD's legal expert to prepare articles of incorporation, and coordinating the final large World Bank Mission in February and the incorporation meetings in March. In February Mr. Srinivasan, Chief of the UNDP-financed management team, arrived and Mr. Eschbach briefed him on the various issues and problems and handed over his files and responsibilities.

During this final period, the Bank project was extensively assisted by Mr. Robert Hager, Fulbright program lawyer, and Mr. John Robshaw, the Kabul representative of Coopers and Lybrand.

d. Training

(1) Formal Training: The Checchi team did not offer formal training during the period; however, it gave assistance and material support to the two PCV accountants at the IAC who conducted a very successful course for bookkeepers and others working at factories under the program.

(2) On-the-Job Training: On-the-job training was stepped up through the IAC staff meetings and Mr. Eschbach's management study mentioned above.

(3) Participant Training: The Checchi team concluded that the time was ripe for participant training for the IAC's Mr. Muhayya and did the preliminary work to send him for an especially-designed on-the-job training program at the

Federal Industrial Development Authority in Kuala Lumpur, Malaysia. The program eventually fell through because Mr. Muhayya could not be spared.

e. Other Activities

(1) Pakistan Trade Agreement: At the request of Dr. Nawaz, Mr. Teele did background research for the use of the Afghan delegation in negotiating a trade agreement with Pakistan. The object was to try to increase the availability of industrial raw materials from Pakistan which tends to control or ban the export of such items.

(2) Industrial Free Zone: Messrs Teele and Morrison were asked by the Afghan Air Authority to look over and comment on proposals for an airport industrial free zone at Kandahar airport or elsewhere. After making initial comments, we recommended that the IAC be asked to undertake a study of the potential demand for these facilities. The request was never received by the IAC.

D. The Musa Shafiq Government, Second Phase, Ministry of Mines and Industries, May 1973-July 1973

1. Private Sector Program Developments

In this two-month period between the move of the program to the Ministry of Mines and Industries and the July 17 Coup which established the Republic of Afghanistan, a great many changes took place in the private industry program. The IAC and the Secretariat were merged in a new department under Mr. Younis Rafik as President. A new operating style was adopted through the influence of Mr. Rafik and a number of new issues were tackled. A move to apply public sector type controls on the private projects by Ministry of Mines and Industries personnel was effectively averted. In the midst of all this reorganization, Mr. Rafik was able to conduct two successful Investment Committee meetings with himself presenting issues and projects.

Generally, in spite of some initial misgivings, the investors seemed to welcome the changes and the investment climate appeared to be improving. The basic statistics for this short period are as follows:

|   | <u>Beginning<br/>May 5, 1973</u> | <u>Ending<br/>July 17, 1973</u> | <u>During<br/>Two and one-<br/>half month<br/>Period</u> |
|---|----------------------------------|---------------------------------|--|
| Projects Approved                                   | 205                              | 210                             | 5  |
| Projects Implemented<br>(net of permanent closings) | 88                               | 92                              | 4  |

## 2. Overall Role of the Foreign Advisors

Mr. Eschbach departed as scheduled in June 1973. The merger of the IAC and Secretariat brought the advisors together again under one roof in the Ministry of Mines and Industries. During the period, the advisors totalled seven: three Checchi, Mr. Guha, Mr. Thomas and two PCVs.

## 3. Specific Checchi Team Activities

### a. Assistance in Developing Industrial Policy

(1) Organization for Policy - Policy Board: The move to the Ministry of Mines and Industries and the accompanying reorganization presented an opportunity to institutionalize policy development. The Checchi team proposed the inclusion of a policy board with a research staff in the new organization. It was included in the reorganization plan with some modification and approved by the Cabinet. After the coup, the research unit was retained but the policy board was not activated.

(2) Overall Industrial Policy: Mr. Teele provided the new President, Mr. Rafik, with several policy papers, speech drafts and supporting documents. These were used in presentations to the press and over the radio to whip up interest and enthusiasm in the program.

b. Industry Promotion Activity

(1) Day-to-Day Promotion: Most of this work continued unchanged with the following exceptions:

— With Mr. Eschbach's departure, the Checchi team stopped certifying invoices for duty-free importation. Mr. Teele continued to advise the staff on some of the more difficult issues. Mr. Thomas and his counterpart took over the task of issuing implementation certificates.

— Mr. Rafik took a great interest in the applications and received detailed briefings from the advisors. He presented the applications to the Committee with very good results.

(2) Active Promotion: In addition to previous activities detailed recommendations were made for improving the procedures for issuing licenses and visas for foreign investors and their workers. The serious problem with visas was on its way to solution when the coup intervened.

c. Institution Building

(1) The Investment Promotion and Development Department (IPDD):

This short period was very active. In May Messrs Teele and Morrison had several meetings with Deputy Minister of Mines and Industries Farand and Mr. Rafik to work out the organization and budget for the IPDD. Additional meetings were held with Mr.



Rafik to work out difficult points and the advisors prepared several drafts of the proposed organization chart and budget, along with descriptions of each unit proposed. The final result was a Presidency with a Planning and Policy Board and four line General Directorates, each with a staff appropriate to its responsibilities. The Operations Department, for example, was designed to assume the IAC functions and was to be well-staffed, while the Secretariat Department was to continue the reduced activities of the old Secretariat as recommended by Mr. Eschbach with a relatively small staff. A budget of Afs. 3.1 million was provided. The proposal was approved by the Cabinet on June 18, 1973. As with other achievements in the period, this approval was overtaken by the coup.

In the meantime, several appointments were made, some at the urging of the Checchi team. Mr. Aziz Rahim was made Director General, Secretariat, and his place as Director General, Operations, was filled by Mr. Ruhi, who had a good background for the work.

The IPDD moved into fairly adequate space at the Ministry of Mines and Industries which had the advantage of bringing all segments of the program under one roof. There was some deterioration in the facilities of the IAC portion of the IPDD, however, compared to the facilities which had been developed in the refurbished IAC building.

d. Training

The PCV-taught accounting course continued during the period as did the on-the-job training. There were no additional training activities during the period.

e. Other Activities

There were no special other activities during the period.

E. After the Coup to Approval of the New Investment Law, July 1973-May 1974

1. Private Sector Program Developments

The Coup d'Etat of July 17, 1973 brought immediate uncertainty to the private industry program as to most programs in Afghanistan. Within a little more than a month, however, President Daoud made his first major policy speech at the independence celebrations in late August. Although he stressed public sector industry, he stated that the Government would also promote and guide private industry. During the same early days of the Republican Government, assurances were given at high levels that the Government would pursue private investment promotion.

In August it was decided that the investment law should be reviewed and perhaps changed. This turned out to be a long process as the new law was not finally approved until May 1974. It was also decided that no new applications should be prepared or approved until the review of the law was completed. This meant an extended hiatus in much of the work of the IPDD and the team. The team, therefore, concentrated on other areas, such as assisting with the development of the new law and related regulations, basic policy research concentrating on agri-business, and extended assistance to the Government on petroleum exploration-exploitation matters.

The pace of most of this work, especially the development and approval of the new law, was slowed by health problems of Mr. Rafik who was forced to return to India three times (August, December and March) for medical treatment. Other than routine day-to-day activities, progress slowed to a crawl in his absence.

Generally, the investment climate was not favorable during the period due to the widespread uncertainty about the Government's intentions and some moves, like price controls, which were discouraging. Fortunately, however, this did not result in factory closings. In fact, most of the factories continued to operate well and a surprising number of new factories under the program opened their doors. The statistics for the period follow.

|   | <u>Beginning<br/>July 18, 1973</u> | <u>Ending<br/>May 22, 1974</u> | <u>During<br/>Ten-month<br/>Period</u> |
|---|------------------------------------|--------------------------------|--|
| Projects Approved                                   | 210                                | 210                            | 0                                      |
| Projects Implemented<br>(net of permanent closings) | 92                                 | 100                            | 8                                      |

On May 22, 1974 the new investment law was approved by the Cabinet.

## 2. Overall Activities of the Foreign Advisors

The advisor group became all-American in October 1973 with the departure of Mr. Guha. This left the Checchi team, Mr. Thomas and the PCV accountants. The hiatus in application and new project work resulted in some realignment in work patterns with Mr. Morrison joining Mr. Teele in devoting considerable time to policy matters — mainly the investment law and its regulations. Mr. Manly set up the research unit and began his research program and Mr. Thomas continued to provide direct technical assistance to operating projects and projects under construction.

## 3. Specific Checchi Team Activities

### a. Assistance in Developing Industrial Policy

As noted above, this was the major activity of the team after

the coup. The team had an unusual opportunity to make policy recommendations on a relatively clean slate.

(1) Investment Law and Regulations: Messrs Teele and Morrison were actively engaged in working with Mr. Rafik on these subjects during the entire period. In September 1975 the Government appointed a committee, including Mr. Rafik and Dr. Nour Ali of the IDBA, to consider changes in the investment law. A complete redraft of the law was submitted for the committee's consideration. The early meetings were unproductive because one member took the position that the President intended to have no new foreign investment. This view was quickly discredited and the committee prepared its draft. After lengthy consideration of the committee's draft by the Ministry of Justice in November, it was presented to the Cabinet for approval in December. The Cabinet was not satisfied and returned it for more work.

More discussions with the team and more redrafts followed. The Investment Committee considered the law in three meetings in February and re-submitted it to the Cabinet in March. The Cabinet, led by the Minister of Agriculture, decided that the draft law might be too liberal and requested a survey of other investment laws. Mr. Teele carried this survey out in the next month with considerable help from Checchi/Washington (a brief summary of the findings are in Appendix III). Following translation of this report into Farsi, the Cabinet met again on the subject. The new law was finally approved on May 22.

Thus, the new investment law was hammered out over a nine-month period. It involved a great deal of work on the part of the special committee, especially Mr. Rafik and Dr. Nour Ali, and on the part of the advisors.

Its passage was a signal that the uncertainty was over and the private investment program was alive and well. Yet, serious compromises had to be made and the law is less liberal than its 1967 predecessor. A clause requiring majority Afghan ownership in all projects is the most serious weakness. The effect of the new law is discussed in some detail in Chapter III. Appendix IV contains a comparison of the 1967 and 1974 investment laws.

The drafting of a new law gave a good opportunity for drafting new regulations as well. The team decided to propose comprehensive regulations which would guide the IPDD and the investors in detail through the implementation of the law. Mr. Morrison spent much of his time during the period drafting the proposed regulations for the operation of the law's incentives using various drafts of the new law as the basic document. Periodic discussions with Mr. Rafik indicated what was likely to be acceptable. When the new law was approved, this part of the regulations were nearly ready although it was necessary to make some revisions reflecting late revisions, in the law itself.

(2) Overall Policy Recommendations: In March Mr. Teele submitted his contribution to the 1353 annual plan. Much of it was published in the plan document. The submission estimated investment for 1352 (March '73-'74) at Afs. 250,000,000 and for 1353 at Afs. 120,000,000, the drop resulting from the hiatus in new project approvals since the coup.

(3) Customs Tariff Modification: The team was heavily occupied during the period trying to get Mr. Manly's proposed new tariff, or at least its concepts, approved and implemented. In the fall of 1973, the Government appointed

committees to consider the matter and Mr. Manly was asked to submit several back-up documents and explanatory notes. After a long delay, the Customs General Presidency itself published a draft new tariff in March 1974. Mr. Rafik received a copy and asked Checchi to review it. We found it very defective both in its coding system and in its rates. Its coding system departed substantially and unnecessarily from the model being followed, the Brussels Tariff Nomenclature (BTN), and the rates did not begin to solve the problem of low finished goods-high raw materials rates. The Checchi team made its detailed analysis available to various parties, such as Dr. Nour Ali, Mr. Taufiqi, the public sector industry president, and the Investors' Association, who in turn put pressure on the Customs General Presidency for modification. The Customs General President then requested help in modifying his tariff and Mr. Manly, mobilizing the Afghan staff of the research unit, provided the assistance. The new tariff as modified was finally approved in the summer of 1974 (see below).

(4) Policy Research -- Agri-business: Mr. Manly and the three-man Afghan staff of the research unit designed and carried out a comprehensive research project which gathered a large amount of information about Afghanistan's regions and their potentials and investigated ways to promote agri-business projects to increase the proportion of local raw materials used in Afghan industry and disperse some of the benefits of industry to the poor in the rural areas. The project had entered the drafting stage by the end of the period.

b. Industry Promotion Activities

(1) Day-to-Day Promotion: With the near elimination of application activity, pending approval of the new law, day-to-day promotion activities were

limited to processing duty-free importation, done by the Afghan staff with limited assistance, and issuing implementation certificates, handled by Mr. Thomas and his counterparts.

(2) Active Promotion: Most investors were adopting a wait-and-see attitude so active promotion activities were also reduced during the period. There was some investor contact, however. A special effort was made in the case of a proposed joint venture tannery investment between Genesco of the United States and the local firm of Yaqub Brothers. OPIC was interested and the team was extensively involved in several phases of the work. The project was implemented during the period. Mr. Thomas and his counterparts continued to provide technical assistance to many projects.

In an effort to improve the information available on the program, Mr. Teele designed a brief, two-page quarterly report form for the operating projects. English and Parsi versions were mailed out to all operating projects. Some 30 percent were returned. The information was useful for the preparation of a semi-annual report in May and other purposes, but the return was obviously unsatisfactory. Future questionnaires will have to be handled differently.

c. Investor Building

As a result of the overall uncertainty, little progress was made in strengthening the IPDD or other institutions in the program during the period. A major exception was the IDBA.

(1) IPDD: The IPDD continued to operate during the period, but because there was virtually no application work to be done, it was much less active

than had been hoped. The key Operations Department lost its General Director, Mr. Ruhi, in September and he was not replaced. Another key staff member, Mr. Muhayya, left for training in Japan in May 1974.

The Checchi team was periodically involved in assisting Mr. Rafik with organization planning but with little result. In September 1973 there were proposals to combine the private and public industrial promotion activities in one presidency, a move which would have been very serious for the future of the private sector. The team worked with Mr. Rafik to defeat the proposal. Several new activities were grafted onto the IPDD in February 1974, including industrial parks, handicrafts and cottage industry development. Mr. Teele worked with Mr. Rafik on plans for these units. Eventually, however, the idea was dropped. At the end of the period, in approving the new investment law, the Cabinet also decided to shift the whole private industry program and the IPDD from the Ministry of Mines and Industries to the Ministry of Planning.

One very favorable note in the IPDD story was the continued functioning of the research unit under Mr. Manly. Two well-qualified new employees were hired and, along with research assistants on the Checchi local currency payroll, made an effective research team.

(2) Investors' Association: In spite of the uncertainty surrounding the investment climate after the coup, the Association survived and remained quite active. A new version of its position paper was presented to the government in September and in April it took a strong and effective position on the first modified tariff proposals, helping to force a re-consideration. The Checchi team worked together with the Association on these matters.



(3) Industrial Development Bank of Afghanistan (IDBA): The IDBA really took off during the period after a delay of some months while the government decided whether it really wanted the institution. Once that decision was made, in November-December, the IDBA moved ahead rapidly under the leadership of Dr. Nour Ali and the UNDP-financed management team. An excellent group of management trainees was recruited and an impressive training program initiated. Fred Axelson, PCV accountant with the program, became one of the instructors. Checchi involvement with the Bank consisted of close liaison in several phases of the work and assistance in the training program.

d. Training

Training activities during the period were limited to helping to train the IDBA staff and on-the-job training, especially training provided by Mr. Manly in the course of the research program. Regarding the IDBA, Mr. Teele spent several days working with the trainees briefing them on the program and going through the IPDD's procedures with them. He also gave a two-day seminar. Seminars were also given by Mr. Manly, Mr. Thomas and Dr. Zondag.

e. Other Activities

(1) USAID Agri-business Task Force: Both Mr. Manly and Mr. Morrison served as members of USAID's Agri-business task force in the spring of 1974. The purpose was to develop USAID project activities in the area. Several papers were submitted.

(2) Petroleum Matters: At the request of Mr. Rafik, Mr. Morrison was very heavily involved, on an intermittent basis, with the development

of petroleum resources in the southern portion of the country. Mr. Rafik sought Mr. Morrison's help because he, himself, was appointed by the President as the official chiefly responsible for these matters. Mr. Morrison's work covered three areas: petroleum legislation, a specific agreement with the Compagnie Francaise des Petroles (CFP) and the development of a national oil company to be the administrator of national oil policy and the contact point for foreign and domestic investors in petroleum and related activities. All three areas were still going strong at the end of the period. This work is considered very important because (1) petroleum development through foreign oil companies could potentially bring huge benefits to Afghanistan as it has to other countries, and (2) the Government has no one with sufficient experience in dealing with these subjects.

F. After Approval of the Republic Investment Law -- May 1974-Present

1. Private Sector Program Developments

The approval of the new investment law opened the way for the private investment program to begin moving again and in the few months since May 22 it has done so. However, progress has been slow for several reasons. The new law required a number of time-consuming steps before it could be implemented such as the preparation of a special investors' raw materials tariff and training of the IPDD staff in its use. The program was transferred to the Ministry of Planning, a move considered beneficial to the program but also time-consuming. The staff, particularly the Operations Department, shrank somewhat during the previous hiatus period and was not immediately built up. Mr. Rafik was involved in petroleum negotiations for much of this time and could not devote full time to getting the private industry program moving again.

There were only four advisors assigned to the program, the Checchi team and Mr. Thomas. The new law was less generous than the old, which discouraged some investors.

In spite of these problems, potential investors, particularly Afghan investors, bombarded the IPDD with requests for applications and a good start was made in sorting them out and getting brief, preliminary applications prepared. Since investor confidence is the most important element in the program, it appears that bringing program resources even up to the previous levels would lead to a powerful wave of new private investment.

## 2. Overall Activities of the Foreign Advisors

During the initial weeks after approval of the new law, the advisors were involved in all phases of work necessary to get the program moving. However, just as the program appeared as though it might be ready to move, the assistance was being phased out. Dr. Zondag left in July. Mr. Thomas was transferred to the USAID Capital Development/Engineering Division. AID and USAID concluded that the new AID legislation priorities did not permit a continuation of assistance to private industrial development and therefore decided not to extend the Checchi contract. As of this writing, an arrangement is being worked out under which Mr. Morrison would remain with the program for an additional nine months, through June 1975. The first three months would be under a short extension of the existing contract and the final six months under UNDP financing. During this nine-month period, UNDP and the Government will try to arrange for the assignment of a UNIDO team to the private industry program.

### 3. Specific Checchi Team Activities

#### a. Assistance in Developing Industrial Policy

The approval of the new law left the Checchi team with more policy related work than it could handle immediately, but a good deal was accomplished.

(1) Investment Law and Regulations: The new law was translated soon after approval and it became clear that some immediate interpretation was needed and that the regulations should be put into force as soon as possible. Mr. Teele worked with Mr. Rafik on interpretation of several points, such as the extent to which certain provisions of the new law applied to projects operating under the old law. These interpretations were made available to interested investors.

Mr. Morrison immediately began working to revise the draft regulations to conform to the late changes in the new law. By the end of the period, several sections were completed, translated into Farsi and ready for submission to the Investment Committee.

(2) Tariff Modification: With the approval of the new law, there were suddenly two import tariffs which had to be dealt with, the general tariff and the investors' special raw materials tariff.

The need for an investors' special raw materials tariff arose from a key change in the investment law which replaced the duty-free raw materials for five years benefit with a provision which stated that the maximum import duty on raw materials for projects under the law was 20 percent, but that the Investment Committee would determine, on a yearly basis, the duties on individual raw materials. The investors' special raw materials tariff was prepared as the first year's tariff.

Mr. Manly prepared the raw materials list by BTN code using previously-developed material. Then in long meetings including Messrs Rafik, Teele, Manly, and Dr. Nour Ali, the rates were worked out. Considerable support work for the effort was done by the IDBA staff. The resulting tariff was cleared with the President General of Customs and approved by the Investment Committee in late June. Subsequently, Eng. Saleem prepared both Farsi and English versions for publication. Bringing this tariff into being was a very important step in getting the program moving under the new law.

The Government approved the general tariff at about the same time. After some delay, the Checchi team obtained a copy and began an analysis. It appears that the new general tariff is a vast improvement over the April draft and reflects to a considerable degree Mr. Manly's two-year effort to bring about a development-oriented tariff. Further changes are still needed, especially since the level of protection for some local producers is still extremely low by any standards. But a combination of a reasonable special raw materials tariff for the investors, which is to be adjusted every year but has no overall five-year limitation, and an improved general tariff, should mean that the huge obstacle to industrial development represented by the previous tariff situation has been greatly ameliorated.

3. Policy Research — Agri-business: Mr. Manly devoted most of his time during the period to drafting his comprehensive agri-business report. The report is scheduled to be distributed just prior to the team's departure on September 15. Several offices with USAID are already conferring with Mr. Manly about the detailed data in the report and its application to USAID's plan for programs aimed at the poorest segments of the population and for agri-business development.

## **b. Industry Promotion Activities**

(1) Day-to-Day Promotion: Considerable work was also needed in this area in connection with the new law.

— As a result of problems experienced with applications under the old law, the team proposed, and the Committee accepted, a new two-step procedure for applications. The first step is a brief preliminary application to be approved by the Committee, aimed at screening out projects basically unacceptable for economic or political reasons. The second is a detailed application designed to provide extensive information for the Committee for possible sources of credit and also for use as a planning document by the investor. The team prepared the new forms which were approved by the Committee. The Afghan staff handled the task of filling out the preliminary forms, working with the investors. In July the Committee approved the first six preliminary applications. As of this writing, there are nearly 30 more ready for submission. The task of preparing detailed applications, which will heavily tax the limited Afghan staff with minimal help available from Mr. Morrison, has not started.

— The switch from duty-free raw materials to reduced duty raw materials also posed a heavy strain on the Afghan staff of the IPDD. After receiving the investors' special raw materials tariff, the Customs began swamping the IPDD with calls for help in determining where specific raw materials fit. At our suggestion, Mr. Rafik decided that the IPDD staff would indicate the proper code number and duty rate on each invoice forwarded to Customs, thus doing the Customs job for it in the interest of the investors. Mr. Teele and Eng. Saleem assisted the staff in this work and trained the staff in the use of the BTN guides and indexes (see "training" below).

(2) Active Promotion: Active promotion during the period consisted mainly of a major translation, publication and distribution effort: the investment law, the new production tax law, the investors' raw materials tariff (both English and Farsi), and the general tariff.

c. Institution Building

Institution building assistance during this short period was limited to helping Mr. Rafik and the senior officials of the Ministry of Planning integrate the IPDD into that Ministry. Most of this work still needs to be done and will fall to Mr. Morrison.

d. Training

As mentioned above, Mr. Teele devoted considerable time to training the IPDD staff in the use of the investors' special raw materials tariff and the indexes and guides to the Brussels Tariff Nomenclature which are invaluable but voluminous, covering about two feet of shelf space.

e. Other Activities

(1) USAID Agri-business Task Force: Messrs Morrison and Manly continued as members of the task force until July when it was disbanded. Several more papers were submitted.

(2) Petroleum Matters: Mr. Morrison, and Mr. Rafik, continued to devote a great deal of time to negotiations with the French CFP of an agreement for exploration and exploitation of petroleum in Southeastern Afghanistan. The French team made two extended visits to Afghanistan and Mr. Morrison acted as chief advisor to the Afghan negotiating team. He prepared analyses of the French proposals, detailed

counterproposals and supporting calculations, and explained the points in detail to the Afghan negotiators. As of this writing, the negotiations are continuing. Reportedly, Mr. Morrison's efforts attracted favorable notice at the top levels of the Afghan Government.

Mr. Morrison also prepared recommendations regarding the proposed national oil company. Such a company is considered essential if Afghanistan is to be able to negotiate and operate on an equal basis with foreign oil companies and to administer a national petroleum resources development program.

This concludes the descriptive listing of Checchi team activities during the almost three and one-half years of the contract. Chapter III, which follows, discusses future work needed on the industrial development program and the conclusions which can be drawn from the experience of Checchi and Company with this contract.



## CHAPTER III

### FUTURE WORK NEEDED AND CONCLUSIONS

This chapter first gives our views regarding the future work on the industrial development program for which the assistance of foreign advisors will be important if not essential. The second part of the chapter sets out the conclusions which we have drawn after three and one-half years in this work. The conclusions are presented in such a way that they may be of interest not only to those involved and concerned with developments in Afghanistan, but also to those interested in technical assistance to private industry development programs generally.

#### A. Future Work Needed

This discussion is given under the same five topic headings — policy, promotion, institution building, training, and other — as were used in Chapter II.

##### 1. Assistance in Developing Industrial Policy

###### a. Regulations

The immediate need is for the completion, adoption, staff training and implementation of the regulations for the administration of the investment law. Mr. Morrison has done a great deal of work in drafting regulations, but a big job remains to be done before they can be implemented.

###### b. Tariff Modification

The current situation in which both the new general tariff and the investors' special raw materials tariff have been approved is favorable for the

further development of private industry. However, neither document is entirely satisfactory. A few needed raw materials were inadvertently omitted from the investors' raw materials tariff and a few rates are still too high. The general tariff still gives inadequate protection to several local industries with the result that some are still paying more duty on raw materials than is paid on competing finished goods. Both documents require amendment and will require amendment periodically as the program moves forward.

c. Project Selection Criteria — Incentives

Work during the Checchi contract period, including Mr. Morrison's work on project criteria and Mr. Manly's comprehensive agri-business research, provides a strong foundation on which the Government of Afghanistan can build a criteria-based private industry development program which could sharply increase the benefits to the economy and to the poorer and rural segments of the economy. Further assistance is needed to help define the issues, provide for follow-up information requirements and generate specific foreign assistance or participation in the projects which develop.

d. Overall Industrial Development Policy

Afghanistan still lacks an overall industrial development policy statement, except for what has been included in the Fourth Plan and the annual plans. Such a statement would be very useful. The help of a foreign advisor is not necessary for this but would be helpful in getting the basic work for such a statement carried out.

e. Policy, Planning and Research Unit

In spite of Mr. Rafik's success in establishing a research unit in the IPDD, and Mr. Manly's extensive efforts to build up that unit, it is still not

strong enough to provide the needed research and conceptualization for rational policy development. Continued foreign assistance is needed to help develop a unit which would institutionalize policy development.

## 2. Industry Promotion Activities

### a. Day-to-Day Promotion

(1) Applications: With the new law, the "bread and butter" portion of the program, i.e. the conceptualization and development of projects through the application procedure and assistance with the approval process, has started moving again. The new two-step procedure has been installed. The preliminary applications are being handled by the present Afghan staff. But the preparation of detailed applications using the more sophisticated forms approved by the Investment Committee will call not only for a sharp increase in the Afghan staff assigned to this work, but continuing foreign assistance as well. Coordination with the IDBA will be essential and also very useful. It may in fact be possible for the IDBA to assist directly in this application work through its own Afghan staff and foreign management team.

(2) Invoices: The second main component of day-to-day promotion — clearing invoices for duty-free import — is in the hands of the Afghan staff members who have been trained by Mr. Teele in the use of the investors' raw materials tariff and the BTN guides. It will still be highly desirable for the staff to be able to have the help of a foreign advisor in difficult cases.

(3) Technical Assistance: Technical assistance to the individual factories is highly desirable to keep the program going. Some members of the Afghan staff, such as Mr. Makhmoor, are trained technicians and can provide assistance

without further foreign help. However, there are not enough such technicians and their coverage is not nearly broad enough. More foreign management experts and industrial engineers are needed for the IPDD operations division. This is especially true because of the continuing absence of adequate private consulting services in Afghanistan.

b. Active Promotion

(1) Publications: In the past two months, the Checchi team has done considerable publishing work for the program -- the law, investors' raw materials tariff, etc. A great deal more is needed, such as the regulations and a new brochure.

(2) Investor Contacts: Mr. Rafik does an excellent job with investor contacts, foreign and Afghan. However, he still needs some help in providing the foreign investors with supplemental information and in drafting the replies to their letters requesting information. The IPDD does not have staff members with the experience to handle this sort of work. This is an area in which the IDBA is already doing some work and it is possible that more of it could be shifted over.

3. Institution Building

a. IPDD

A great deal of assistance is needed to build up the IPDD to handle the program under the new law. The organization was allowed to atrophy to an extent during the period before the approval of the new law and the process of reversing this has only started. The move to the Ministry of Planning should be helpful. Among the requirements are more qualified staff, preferably engineers, clear lines of authority and responsibility, and work management procedures. These were gradually being

developed at the IAC before the coup and they can be developed, gradually and with effort, again.

b. Private Consulting Firms

Although it is necessary to build up the technical assistance competence of the IPDD, no government agency can provide all the consulting services necessary for industry. Private consulting firms of various kinds are needed. They will be very slow to develop without foreign assistance of some kind. There are, however, many different possible routes to providing this assistance.

c. Other Institutions

Several other institutions are in need of some foreign assistance for optimum development. Examples are the industrial park and the Investors' Association. These are of a lower priority, however, either because they are already receiving some assistance or because they are able to get along to some extent without it.

4 Training

Training is a continuing requirement in most programs. In the current situation, the IPDD is in need of very extensive training assistance. However, such training is feasible only if adequate numbers of people are added to the staff and have some basic qualifications for the work they will be doing, so training will not be wasted on them.

On-the-job training will have to continue. This requires, as in the past, foreign assistance. However, when Mr. Muhayya returns from his training in Japan, he should be able to take over a considerable amount of on-the-job training for other staff members.

If adequate staff members are available, more participant training will be highly desirable. Some of the (non-U.S.) training provided to staff members in the past gives indication of potential effectiveness.

#### 5. Other Activities

Many activities necessary to the growth of Afghanistan's private industrial sector might be listed here. However, restricting ourselves to activities currently underway, the main activity involves assistance to the Government in petroleum development in the southern part of the country. A good start has been made in developing an effective agreement with the Compagnie Francaise des Petroles and this must be carried through. Work has also started on petroleum legislation and regulations and on a national petroleum company. Both are important and will require a great deal of foreign assistance in the future.

#### 6. Prospects for Foreign Assistance

At present there is very little foreign assistance available to the private industry development program. The departure of the Checchi team on September 15 leaves no foreign advisors at the basic institution, the IPDD. There is a strong management team at the IDBA which is and will be of vital importance to the program, but it does not appear likely that this team can or will assume more than a few of the assistance areas which have been covered in the past. The Government of Afghanistan is aware of the problem and has made a strong request, first for the extension of the entire Checchi team and then, failing that, for Mr. Morrison alone. At this writing, it appears that a nine-month extension for Mr. Morrison, three months under USAID and six months under UNDP, will be worked out.

This is recognized by all sides as a stop-gap measure because one man cannot provide all of the assistance needed and because nine months is far too little time. Assistance, of gradually shifting kinds, will be needed for some years to come. The Government is planning to request the assignment of a team from the United Nations Industrial Development Organization (UNIDO) to replace the Checchi team. We have been asked for recommendations regarding a five-man team and have provided the following:

- a. Industrial Promotion and Senior Project Development Advisor  
(Chief of Party)
- b. Junior Project Development Advisor
- c. Marketing and Public Relations Advisor
- d. Senior Industrial Engineer and Management Advisor
- e. Junior Industrial Engineer

Appendix V contains the full proposal including brief position descriptions. Of course, other combinations of experts could also be requested and would also serve the purpose, but we believe this to be the most desirable at the present stage of the program. This type of team, working in close coordination with the IDBA, and with a greatly increased Afghan staff at the IPDD, should result in a program which continues to develop along the lines started during the past few years.

#### B. Conclusions

Conclusions drawn from our experience on this contract, supplemented by experience with similar work in other countries, are given in three parts: (1) Private Industry Program and Role of U. S. Technical Assistance; (2) Current Status and Future

Directions for Afghanistan's Private Industry Program; and (3) Lessons Learned.

1. Private Industry Program and Role of U. S. Technical Assistance

Afghanistan's private industry program, now about seven years old, has been highly successful. About 100 private industries are operating under the benefits of the program with a total investment of about Afs. 1,200,000,000, currently \$20,000,000. Considerable additional investment is represented by projects which are under construction. This may seem like a modest sum but considering the small size of the Afghan economy, the large number of state enterprises which have pre-empted investment opportunities and the fact that this private investment was achieved in absence of financial institutions and many other normal supporting institutions, it is impressive.

Foreign technical assistance has played a strong role in achieving this result. Although the basic political decisions made in 1966 and 1967 to push ahead with a private industry program were entirely in the hands of Afghan policy-makers, much of the key implementation work has been done in association with and with the assistance of foreign advisors. This is at all levels of the work from drafting laws to helping with the minutiae of day-to-day administration or project development. Dr. Zondag's report on the private investment program, Review and Documentation of the Private Enterprise Program in Afghanistan, 1964-74 (AID Projects 087 and 116), provides a detailed discussion of the importance and effectiveness of technical assistance to the program.

2. Current Status and Future Directions for Afghanistan's Private Industry Program

The program is ready to move again after a pause of over a year.



The new law is in force and Afghan investors are lining up to have projects approved. The IDRA is in operation and anxious to provide financing to worthwhile projects.

Still, moving ahead will not be easy. The new investment law and some of the new tax legislation create a fiscal situation which is less advantageous than that under which the previous successes were gained. Government emphasis on the public sector, even while giving support to the private sector, does not help. For foreign investors who are needed for the larger and more technically complex projects, the new law is positively discouraging with its requirement for majority Afghan control of all projects and the retroactive application of this rule to existing contracts which is considered by many to be akin to a breach of contract. Hopefully, this particular provision is on the way to amendment.

With a somewhat less attractive investment law, it is even more necessary than in the past that the law be interpreted liberally through regulations and day-to-day administration. It is also necessary that active promotional efforts be made to attract investment since the existence of the law per se is less likely to do so than was the case previously.

Assuming that the necessary efforts are made and that the program does move forward, it is likely and desirable that it become more sophisticated and closely tied to Afghanistan's overall economic development. This means project approval criteria and special emphasis on projects in the agri-business sector or other sectors where more Afghan raw materials are used. Mr. Manly's extensive agri-business research project should help in this regard.

However, it is important even while establishing criteria and priorities and giving special attention to projects utilizing Afghan raw materials, that as much as possible of the early freedom in the program be retained. The private investment program was initially built by letting the private investor make as many of his own decisions as possible. Although the amount of advice available and the amount of advance planning and research required has increased over the years, the freedom of decision is still there and is still important.

### 3. Lessons Learned

This technical assistance contract in many ways has been a prototype in the field. The work of the team covered an unusually broad range and most of the problems and situations which come up anywhere were included. The Checchi team members had all worked on industrial development projects elsewhere before coming to Afghanistan and thus we are in a good position to appreciate the many lessons about industrial development which this experience brought home. It is hoped that a brief discussion of some of the more important lessons will be of general interest as well as of interest to those concerned with Afghanistan. We make no claim that all of these lessons will be new to readers, but some may be new to some readers.

#### a. Private Industry Development as a Technical Assistance Target

Although not a traditional area for technical assistance, private industry programs are attractive technical assistance targets. They mobilize resources and talent in the private sector which would otherwise be unavailable for development. They provide jobs, of course, but also are a demonstration of what can be done by private initiative and limited government assistance. Technical assistance to such

programs is not only satisfying to the practitioner but yields an unusually high, and measurable, cost benefit ratio.

But success is not automatic. Private industry programs in most developing countries are controversial and therefore political. Their success depends on political commitment by at least some portions of the leadership. They are not programs which will be tolerated because they are harmless, like many other technical assistance target areas. This being the case, success requires dedicated leaders who are willing to take the political risks involved. The Afghan private industry program was started by such a group, headed by Dr. Nour Ali, now President of the IDBA, and more recently sustained by Mr. Younis Rafik, President of IPDD. Although the program has had ups and downs in this respect over the years, it has always had at least a minimum of such leaders who have kept the program going. Without such leaders, no foreign advisors could have achieved anything significant. Thus, as important as have been the efforts of foreign advisors to this program, the key ingredient has been Afghan leadership.

Still the work of the advisors -- the Miner and Checchi teams and the other foreign advisors -- has been vital. Since the program has been successful, the advisors' work has also been successful. In our view, a key reason for success has been advisor involvement in many different phases of the program. We have not isolated ourselves in a few cubbyholes labeled "institution building," "policy advice" or "training." We have seen and have been involved in contracts where this was the case. In some, such as Thailand's Board of Investment, this was no problem because most areas outside the cubbyholes were well within local competence. In others, such

as Liberia, this was not the case and a limited responsibilities approach resulted in distinctly limited achievements.

Here, under Afghan leadership, we have had a hand in most aspects of the work. We and the other advisors have undoubtedly overstepped the traditional bounds for advisors by doing too much of the work ourselves, but it has been considered necessary and has contributed to success. We have worked to reduce this tendency and have succeeded.

In situations such as in Afghanistan, there is another reason to become involved in the entire industry development program including some of the day-to-day work: advisor credibility and effectiveness. An advisor obviously needs rapport with the local staff in order to have any impact. The limited objectives or, worse, "ivory tower" approach will not result in such rapport and the advisor will find himself unpopular and isolated.

It is often claimed in Afghanistan and elsewhere that an advisor earns his rapport and popularity through the generous use of overseas training opportunities. While there is no doubt that such largess leads to popularity, the Checchi team did not suffer noticeably from not providing such opportunities. We took the position that participant training should be dependent on good, qualified candidates plus enough qualified staff so sending people away for extended periods would not seriously hurt the program. Since we never really had enough Afghan staff members in the program, and since other donors were providing foreign training without such considerations, we never sent any long-term participants. We do not believe this hurt our rapport or effectiveness.

b. Providing Advice and Assistance in Policy Development

Policy has been a key word in our work. It has been stressed by AID/W as our main responsibility. Recently we have heard that at least some in AID now feel that assistance programs should be conducted strictly within existing host country policy and that no attempt, however subtle, should be made to influence such policy. It is no surprise that many Afghan, and other host country, officials share this view on the ground that policy is an internal matter.

Policy is undoubtedly an internal matter and policy decisions can only be made by local officials who have the responsibility and authority to make them. However, despite it being a host country prerogative, policy is not readily dealt with. Ad hoc decision-making is a more natural role for officials. Because appropriate policies are essential to achieving program goals, we regard policy advice and assistance as an important part of many assistance efforts.

This certainly is the case with private industry programs. Policy development, in its broadest sense, is the route to long-term success. At the lowest level, a policy can settle at one time dozens of individual questions which otherwise require hard-fought ad hoc decisions. A higher level of policy change, such as a modification of the import tariff, can make the difference between a program that fosters industrial enterprises with a five-year life and one which can lead to permanent and growing industries. At the highest level, of course, is basic economic and political policy which either favors private industry or not. If not, it will not be.

The policy advisor clearly has to tread carefully and be satisfied with gradual gains. Useful approaches which were used with some success by

the Checchi team and which have general application include the following:

— Day-to-day administrative headaches, which try the patience of even the local staff, can be used as an entree for low level policy recommendations. The successful implementation of such recommendations can demonstrate the efficiency of decision-by-policy over ad hoc decision-making.

— Targets of opportunity sometimes present themselves and should be exploited. As an example, the need of the Ministry of Commerce for contributions to national plans opened the way for discussion of broad policies and inclusion in the plan. Such inclusion is valuable mainly as publicity, but it is important as a public statement that implies a commitment.

— Policy change is more likely to come if complete staff work is done. The actual staff work may not be used as prepared but will give policy-makers a basis for detailed consideration and documentation on which to make their own changes.

c. Institution Building

Institutions are not easy to build. Bureaucracies and ordinary people in any country have their own ways of doing things and change them reluctantly. Therefore, an institution cannot be changed or built on the basis of what the advisors feel is a logical plan and schedule. There must be a demand for performance by the institution from above, a demand which the staff concludes can only be met by accepting some changes. Changes will be achieved in bits and pieces as the need arises or as resistance in a narrow area weakens. The details must be worked out by the advisors who must then apply periodic pressure and assistance with implementation. The gradual improvements in the IAC during the first two years of the contract period provide

an excellent illustration of the problems encountered and the validity of the approach described.

d. Working with Private Investors in Afghanistan

The opportunity to work with private investors has been one of the delights of this experience and one which sets private industry development off from most other technical assistance work. Afghan private investors have exhibited considerable talent and amazing courage in entering uncharted waters with the minimum of support which the investment law, the Afghan staff and the advisors have been able to provide.

Because of their newness to industry, and the environment in which they live, the Afghan investors tend to be more philosophical about difficulties with the government and more willing to take direction from the government than, for example, are American businessmen. They tend to use a follow-the-leader approach to project selection which accounts for multiple applications in a single field which come in once the ground is broken. Further, they are more willing to take the advice of foreign advisors than perhaps they should be. But they are learning. The establishment of the Investors' Association was an important step in overcoming some of these problems. There will be others. The Afghan investors are a remarkable group of people and we consider them important to the future of Afghanistan.

## APPENDIXES



## APPENDIX I

### CONTRACT GOALS IN CONTRACT, AMENDMENTS AND WORK PLAN

The original Checchi contract contained the following language under "Scope of Services."

#### " B. Scope of Services

The Contractor, through the Regular Field Staff and home office support, is expected to provide the technical capabilities to perform the following services:

1. Advise the RCA on the elevation of its Investment Committee to the level of a policy making and coordinating body for the encouragement of private initiative in the field of industry and for the development of legislation and institutions vital to the successful and productive operation of private industrial enterprises; recommend topics for and, if so authorized, conduct research where it is essential for defining needed policies or describing needed institutions.
2. Systematize the review of investment applications which the Investment Committee now reviews as individual cases.
3. Improve and systematize the help the Investment Committee now offers to investors in preparing their applications and in getting into operation, so that this help can be transferred to private or quasi-private responsibility within two years.
4. Provide guidance to the Investment Advisory Center in the effective utilization of foreign and Afghan resources available to it for the greatest benefit of existing and potential private industrial ventures.
5. When occasion demands, recommend and, if so authorized, provide short-term technical services to fill gaps in the resources available to the Investment Advisory Center or Ministry of Commerce. In other words, propose the special tasks in Afghanistan, the United States or elsewhere, for which Afghans or other donor capability is not available and the contractor might recommend or provide short-term personnel.

6. Within six months from the arrival of the Chief of Party, establish with RGA and USAID a set of achievement targets against which project progress may be measured at one-year intervals.
7. Help create better overall support for private enterprise by acting as a catalyst or limited supporter in the creation of new sources of commercial and industrial credit, better commercial legislation and, in general, all those vital elements which normally operate in support of the private industrial sector, but which are lacking in Afghanistan."

In December 1971 the team submitted a detailed work plan as required in item #6 above. That work plan boiled the above down to a list of four goals as follows:

- "GOAL I: To assist in the continued expansion of the private sector in Afghanistan through improving the performance of the IAC and the Secretariat and gradually shifting to less direct controls.
- "GOAL II: To improve the investment climate by providing technical support to prospective and existing private industry.
- "GOAL III: To improve the investment climate by providing support for new or improved legislation and for better overall support facilities for private enterprise by acting as a catalyst or limited supporter for new sources for commercial and industrial credit (e.g., the Industrial Development Bank), easier access to industrial land and in general all those vital elements which normally operate in support of the private sector but which are weak or lacking in Afghanistan.
- "GOAL IV: Identify topics on industrial development and related research topics and, when so authorized by AID/W, carry out research to supplement other efforts in this field, as needed and as requested by the RGA."

In the contract amendment dated July 1, 1973 (amendment #1), the listing of goals was somewhat re-shuffled. The new listing was as follows:

- " 3. Reference Article I - Statement of Work -  
B. Scope of Services "

Delete in its entirety and insert the following in lieu thereof:

- " B. Scope of Services

The contractor, through the Regular Field Staff and home office support is expected to provide the technical capabilities to assist the Investment Committee

and Investment Advisory Center to achieve the objectives and to carry out the course of action as set forth below:

- Goal #1** To support the continued expansion of the private industrial sector through advisory assistance to the Investment Committee in attaining its objectives; specifically, these may be identified — but not limited to — the following:
- (a) Development and formulation of industrial development policies of general application.
  - (b) Acceleration of the investment project approval and implementation processes.
- Goal #2** To support the continued expansion of the private industrial sector through assistance to the Investment Advisory Center (IAC) in — but not limited to — the following tasks:
- (a) Support to the Director, staff, and possible other foreign advisors throughout the scope of functional operations of the Center; advisory assistance to the Director and the Investment Committee in the approval process of projects submitted through the IAC.
  - (b) Advice and direct assistance to private entrepreneurs in the identification and development of investment projects.
- Goal #3** To support efforts directed toward the improvement of the investment climate through:
- (a) Assistance in the recognition and creation of necessary legislation pertaining directly — or complementarily — to the development of the private industrial sector.
  - (b) Advisory assistance to the Chambers of Industries and Commerce and to any association of private investors in terms of developing organizational capabilities for the benefit of the private sector and for purposes of providing an effective voice in determining RGA policy vis-à-vis private industrial development."

As a supplement to this listing, Amendment #2, also dated July 1, 1973, provided for research work to be done by a Research Analyst, Mr. Manly, as follows:

- "4. Reference Article I - B - Statement of Work - B. Scope of Services — add the following to Goal #3:

- (c) Implementation of completed tariff modification research including negotiation of item approvals for the conversion of raw materials and intermediate imports to a new tariff structure.
- (d) Agri-business research to support policy recommendations to relate private industry promotion with other national goals. The contractor shall study the agri-business content of private industrial development with the aim of identifying and increasing the industrial raw material content in local private industry.
- (e) Policy support — The Contractor shall provide research assistance in support of policy recommendations for the encouragement of private industrial investment outside the Kabul area."

## APPENDIX II

PRIVATE INDUSTRIAL PROJECTS ESTABLISHED UNDER FDPIL  
BASIC STATISTICS (all figures rounded)

| Type of Project   | Total       | Export Market-Oriented | Partially <sup>1</sup> Export Market-Oriented | Domestic Market-Oriented |       |          |       |       |      |        |
|---|-------------|------------------------|---|--------------------------|-------|----------|-------|-------|------|--------|
| Number of projects                                      | 100         | 28                     | 8   | 64                       |       |          |       |       |      |        |
| Estimated investment <sup>2</sup><br>(millions of Afs.) | 1,204       | 236                    | 104   | 864                      |       |          |       |       |      |        |
| Percent of investment                                   | 100%        | 20%                    | 9%  | 71%                      |       |          |       |       |      |        |
| Geographic Location                                     | Kabul       | Jalalabad              | Mazar   | Kandahar                 | Herat | Charikar | Aqcha |       |      |        |
| Number of projects                                      | 82          | 4                      | 3   | 6                        | 2     | 2        | 1     |       |      |        |
| Estimated investment<br>(millions of Afs.)              | 1,037       | 48                     | 16  | 41                       | 27    | 15       | 20    |       |      |        |
| Percent of investment                                   | 87%         | 4%                     | 1%  | 3%                       | 2%    | 1%       | 2%    |       |      |        |
| Nationality of Investment <sup>3</sup>                  | Afghanistan | Pakistan               | India   | USA                      | UK    | Germany  | Swiss | Italy | Iran | Turkey |
| Number of projects <sup>4</sup>                         | 92          | 7                      | 3   | 3                        | 2     | 2        | 1     | 1     | 1    | 1      |
| Estimated investment<br>(millions of Afs.)              | 892         | 69                     | 10  | 38                       | 15    | 128      | 35    | 5     | 2    | 10     |
| Percent of investment                                   | 75%         | 6%                     | 1%  | 3%                       | 1%    | 11%      | 3%    | 1%    | 1%   | 1%     |

<sup>1</sup> Projects which sell much of their output to foreigners. This is economically the same as exporting.

<sup>2</sup> Excluding IDBA, Hayat, Akbary and projects under construction. Includes Afs. 15 million for AHU Shoe under exports since the company exports leather as well as making shoes for the domestic market.

<sup>3</sup> According to applications.

<sup>4</sup> Projects with any percentage of foreign investment are counted under the foreign country as well as Afghanistan. Therefore, the total exceeds 100 and is 113. For investment figures, the percentage of investment from each country is used so the total equals the basic Afs. 1,204 million with no double counting.

PRIVATE INDUSTRIAL PROJECTS ESTABLISHED UNDER FDPIL  
TYPES OF INDUSTRY AND MAIN MARKETS

TOTAL: 100<sup>4</sup>

| <u>Export-Oriented</u>     |                 | <u>Partially Export<sup>1</sup> - Oriented</u> |                | <u>Oriented Towards Domestic Market</u>            |                |
|----------------------------|-----------------|--|----------------|--|----------------|
| Animal casings             | 2 <sup>2</sup>  | Dry cleaning                                   | 4              | Rayon weaving                                      | 18             |
| Raisin processing          | 9 <sup>2</sup>  | Sausage mfg.                                   | 1 <sup>3</sup> | Rayon spinning                                     | 1              |
| Leather and tanning        | 10 <sup>2</sup> | Cardboard containers                           | 1 <sup>3</sup> | Knitted goods                                      | 2              |
| Honey processing           | 2               | Coca-Cola/Fanta                                | 1              | Steel re-rolling                                   | 2              |
| Bone meal                  | 1               | Data processing                                | <u>1</u>       | Printing   | 3              |
| Fur raising and processing | 1               |  |                | Edible oil   | 1              |
| Wine making                | 1               |  | 8              | Metal fabricating (furniture,<br>bus bodies, etc.) | 8              |
| Nut processing             | <u>2</u>        |  |                | Plastic products, bags                             | 7              |
|                            | 28              |  |                | Plastic footwear                                   | 5              |
|                            |                 |  |                | Building tiles                                     | 1              |
|                            |                 |  |                | Soap   | 1              |
|                            |                 |  |                | Detergents   | 1              |
|                            |                 |  |                | Lubricants blending                                | 1              |
|                            |                 |  |                | Paint, insecticides                                | 1              |
|                            |                 |  |                | Pharmaceuticals                                    | 2              |
|                            |                 |  |                | Ice plants   | 3              |
|                            |                 |  |                | Foam rubber/mattresses                             | 1 <sup>5</sup> |
|                            |                 |  |                | Leather shoes                                      | 2 <sup>5</sup> |
|                            |                 |  |                | Storage batteries                                  | 1              |
|                            |                 |  |                | Accounting   | 2              |
|                            |                 |  |                | Development Bank                                   | <u>1</u>       |
|                            |                 |  |                |  | 64             |

<sup>1</sup> These firms sell much of their output or services to foreigners. This is economically the same as exporting.

<sup>2</sup> Three tanning firms also process and export casings, but have been counted under "leather and tanning."

<sup>3</sup> The output of this plant is almost entirely for the raisin export industry. Thus, the output is exported.

<sup>4</sup> Includes 89 actually operating, 5 ready to operate (installation complete) and 6 temporarily closed.

<sup>5</sup> The largest of these, AHU Shoe, exports some processed skins as well.

## APPENDIX III

SUMMARY COMPARISON OF INVESTMENT CLIMATE AND INCENTIVES  
AFGHANISTAN AND NINE SELECTED COUNTRIES<sup>1</sup>

|  | <u>Afghanistan</u> <sup>2</sup> | <u>India</u> | <u>Iran</u> | <u>Korea</u>           | <u>Nepal</u> | <u>Pakistan</u> | <u>Thailand</u> | <u>Turkey</u> | <u>Philippines</u> | <u>Greece</u> |
|--|---------------------------------|--------------|-------------|------------------------|--------------|-----------------|-----------------|---------------|--------------------|---------------|
| Overall Investment Climate in absence of Legislation (e.g. economic situation, location, etc.) | poor                            | good         | very good   | very good              | poor         | good            | very good       | good          | good               | very good     |
| Overall Investment Climate with Legislation  | fair                            | good         | good        | very <sup>3</sup> good | fair         | fair            | good            | fair          | very good          | very good     |
| Investment Law (yes/no)  | yes                             | no           | no          | yes                    | yes          | no              | yes             | yes           | yes                | yes           |
| Right to Invest - Discrimination   | fair                            | fair         | good        | very good              | good         | fair            | fair            | good          | good               | very good     |
| Customs Duties Benefits  | good                            | fair         | good        | good                   | very good    | fair            | good            | fair          | fair               | good          |
| Protection   | fair                            | very good    | good        | good                   | good         | very good       | fair            | good          | good               | fair          |
| Taxes  | good                            | fair         | good        | very good              | good         | fair            | good            | fair          | good               | very good     |
| Foreign Workers  | good                            | good         | good        | good                   | very good    | good            | fair            | good          | good               | good          |
| Other Benefits   | poor                            | good         | fair        | very good              | good         | good            | good            | fair          | good               | very good     |

<sup>1</sup> Based on review of appropriate investment and other laws. Detailed country sheets available.<sup>2</sup> Afghanistan reflects new investment law approved May 22, 1974.<sup>3</sup> Current political troubles are worsening the investment climate to some degree.

Date: May 1974

## APPENDIX IV

SUMMARY COMPARISON OF  
FOREIGN AND DOMESTIC PRIVATE INVESTMENT LAW  
(WITH BRIEF COMMENTS)

| Regarding | FDPIL 1345 (1967)   | FDPIL 1353 (1974)   |
|-----------|---|---|
| Purpose   | To encourage and protect new private investment by both foreign and Afghan nationals so as to promote economic development and to advance the standard of living in Afghanistan | To encourage, protect, <u>guide, and control</u> private investment for the creation and expansion of industries, and to provide necessary collaboration between public and private investment for the purpose of the progress, coordination, and balanced development of the national economy. |

Comment: Addition of words guide and control may tend to increase attention to these activities at expense of promotion and assistance.

|       |  |   |
|-------|--|---|
| Basis | All new private investments in any of these fields of activity: (1) industry, (2) miners' exploitation, (3) agriculture, animal husbandry or the processing of agricultural or animal products, (4) tourism, (5) any service industry or priority enterprise not included in the above categories which the Investment Committee may designate by regulation pursuant to this law. | <ul style="list-style-type: none"> <li>(1) Maximum use of Afghan raw materials.</li> <li>(2) Maximum use of Afghan manpower.</li> <li>(3) Import substitution.</li> <li>(4) Increase in quantity and value of exportable items.</li> <li>(5) Satisfaction of the common man.</li> <li>(6) Use of Afghan industrial products.</li> <li>(7) Maximum value added.</li> </ul> |
|-------|--|---|

Comment: Removal of mineral exploitation, agriculture, etc. and service industries may be a disadvantage because the specific invitation to engage in these activities is now lacking. However, list of bases in new law gives some guidelines for project evaluation and differential incentives.



# APPENDIX IV (cont.)

| Regarding                 | FDPIL 1345 (1967)  | FDPIL 1353 (1974)  |
|---------------------------|--|--|
| Benefits and Prerogatives | <ul style="list-style-type: none"> <li>- Exemption from taxes on income for <u>five years</u>.</li> <li>- Exemption from import duties on <u>capital goods</u>, for <u>five years</u> beginning the date of approval.</li> <li>- Exemption from import duties on <u>replacement parts</u> for <u>five years</u>.</li> <li>- Exemption from import duties on <u>raw materials</u> or semi-finished goods for <u>five years</u>.</li> <li>- No import duty exemption on passenger automobiles.</li> <li>- Exemption from dividends for five years, provided that it shall in no event extend beyond <u>eight years</u>.</li> <li>- Exemption of all export duties for <u>ten years</u> from the date of approval of the investment.</li> </ul> | <ul style="list-style-type: none"> <li>- This exemption is for <u>four years</u> only.</li> <li>- <u>Capital goods</u> exempted (in accordance with Article 26 of the Customs Law). No time limitation.</li> <li>- <u>Ten percent</u> duty (on the basis of the invoice or the unit price) on <u>replacement parts</u> with no time limitation.</li> <li>- Maximum twenty percent duty on <u>raw materials</u> with no time limitation. Detailed schedule provides many duties in 5 - 10 percent range.</li> <li>- No import duty exemption on passenger automobiles, trucks, construction material and office furniture.</li> <li>- This is for <u>four years</u> and in no event will it extend beyond <u>seven years</u>.</li> <li>- <u>No time limitation</u> on export tax exemption, provided that the products are permitted to be exported.</li> </ul> |
| Other Prerogatives        | <p>Comment: Overall benefits considerably less attractive for first five years, but more attractive and realistic in the longer term. Biggest problem is shift from duty-free raw materials to a duty schedule which may be changed every year.</p> <p>No special benefits for outside Kabul.</p>  | <p>For projects outside of Kabul, exemptions from income taxes and taxes on dividends are increased by two years.</p>  |

APPENDIX IV (cont.)

Regarding

FDPIL 1345 (1967)

FDPIL 1353 (1974)

No exemption from sukuk (an expensive nuisance tax on capital) and other levies.

Exemption from payment of some, but not all, sukuk taxes, registration fees, and other legal fees levied by the court in connection with documents and deeds. Fixed court service fees.

Comment: This is a step in the right direction but much more will be needed to encourage dispersion of industry.

Repatriation of profits, interest, capital and salaries

- Registered foreign capital and such reinvested profits may be repatriated after five years at an annual rate not to exceed 25 percent.
- Repatriation of salaries up to 70%.

Such foreign capital may be repatriated after five years at an annual rate not to exceed 20 percent.

Up to 60% of their salaries.

Comment: Minor reductions in benefits, probably no effect.

Right to Dispose of Shares

- Freely sold to any Afghan or foreign national but not any foreign government or agency.
- The proceeds of the sale of shares can be transferred abroad through the Da Afghanistan Bank.

The same with the limitation that the sale of shares to foreign investors cannot exceed 49 percent.

The same right with the limitation of up to 20% instead of 25%.

Agreements Concluded by the Investment Committee

Separate arrangements on the sale of shares, management contracts, capacity, training, can be made between the Investment Committee and the foreign investor.

No provision of this sort unless the procedures for establishing regulations and administering the law set up according to Article 20, will provide it.

APPENDIX IV (cont.)

| Regarding                             | FDPIL 1345 (1967)   | FDPIL 1353 (1974)  |
|---------------------------------------|---|--|
| Joint Ventures                        | Its encouragement is among the objectives and <u>no limitation</u> of foreign equity.<br><br>Comment: The limitation of 49 percent foreign ownership will discourage some foreign investment.   | The share of foreign investment cannot exceed <u>49 percent</u> .  |
| Government Purchase of Local Products | All government agencies and departments are required to purchase from enterprises under this law, provided that they are similar in quality and price with importable equivalents.<br><br>Comment: A slight strengthening in this article. Meaningless without enforcement procedures.        | The same and in addition it states that the price of the local goods and services shall not be more than fifteen percent higher than importable equivalents. |
| Expropriation                         | Property is protected against government expropriation (Article 29 of the Constitution).<br><br>Comment: The new law more nearly reflects the realities of the situation.   | Expropriation can be carried out only in the public interest and after compensation made according to the law.   |
| Special Agreements                    | In the fields of mineral exploitation or basic industry, whether foreign or domestic investors, with greater or lesser benefits or obligations are allowed.<br><br>Comment: The new law is silent on mineral-related projects which may be a restrictive measure depending on interpretation. | Nothing similar to this.   |

APPENDIX IV (cont.)

| Regarding                                  | FDPIL 1345 (1967)   | FDPIL 1353 (1974)  |
|--|---|--|
| Abrogation of former Law and Retroactivity | Repealed (a) the Foreign Investment Law, and (b) The Law Encouraging Industries. Foreign investments made under the FIL of 1958, the legal provisions applicable thereto shall continue until they expire.  | After the effective date of this law, the FDPIL of 1345 shall stand abrogated. The investments under the FDPIL of 1345 are obliged to offer foreign shareholdings in excess of 49% of equity for sale.                 |
|  | <p>Comment: The new law is retroactive in that all previously approved projects under the old law must now operate under the new. Since the new law in some respects offers less attractive benefits, this is a feature damaging to the older projects.</p> |  |
| Proper Use of Benefits                     | Was covered in regulations but not in the law.  | Will be controlled by the Investment Committee. In case of proof that an investor abuses the exemptions and prerogatives, the Investment Committee has the authority to withdraw these benefits partially or entirely. |

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Updated: September 1974

## APPENDIX V

### PROPOSED FIVE-MAN UNIDO ADVISORY TEAM FOR PRIVATE INVESTMENT PROMOTION PROGRAM

A five-man team of experts is proposed to assist the Industrial Promotion and Development Department of the Ministry of Planning in the implementation of the Government of Afghanistan's program for promoting the development of private industry.

The five proposed experts are as follows:

1. Industrial Promotion and Senior Project Development Advisor (Chief of Party)
2. Assistant Project Development Advisor
3. Marketing and Public Relations Advisor
4. Senior Industrial Engineer and Management Advisor
5. Assistant Industrial Engineer

(The industrial engineers should be general engineers but each should have an industrial specialty as well. As many as possible of the following specialties should be covered: plastics and chemicals, leather and leather products, textiles, food processing industries, metal and metal working.)

The following are position descriptions for each of the five team members.

1. Industrial Promotion and Senior Project Development Advisor, Chief of Party

Works with the President of the IPDD as his senior advisor on all aspects of the private industrial development program.

Supervises the activities of all team members and is the point of contact between the Government, UNIDO, UNDP, other advisors, and the team.

Advises the President of the IPDD and the Investment Committee on industrial development policy and ways to implement such policy. Advises on procedures at all levels of the process.

Works with the investors and the staff of the IPDD on the development of industrial projects and the completion of investment applications. Advises the President and staff of the IPDD on the recommendations to be made to the Investment Committee.

In all of his work, builds upon the foundation laid over the years by the IPDD and its predecessors, with help from various advisors.

2. Assistant Project Development Advisor

Works with appropriate staff of the Operations Department of the IPDD, with the Marketing and Public Relations Advisor, and with investors, to develop industrial projects and prepare investment applications.

Works with a designated individual in the IPDD to continue the development of the IPDD's library and collection of data on industrial projects.

Provides on-the-job training to the IPDD staff in project development.

Provides seminar-type training to IPDD staff under the program worked out jointly by the President of the IPDD and the Chief of Party.

3. Marketing and Public Relations Advisor

Works with appropriate members of the staff of the Operations Division to carry out domestic and foreign market studies:

- in connection with applications under preparation
- to discover possible investment opportunities.

Works with appropriate members of the staff of the IPDD to develop an active public relations program including the following elements:

- preparation of informative pamphlets on Afghanistan's investment climate and investment opportunities. Updating brochure and investment opportunity list published in 1972.
- publication of the investment law and regulations, and other key documents, in a promotional format.
- developing a system for the prompt reply to correspondence and a system of follow-up.

— developing other public relations activities within the limitations of the IPDD budget.

Provides on-the-job training to the staff in connection with these activities.

Provides seminar-type training to the staff under a program worked out by the President of the IPDD and the Chief of Party.

4. Senior Industrial Engineer and Management Advisor

With appropriate personnel of the IPDD Operations Division, establishes a technical assistance and management assistance unit. Develops procedures for publicizing the unit, processing requests for assistance and controlling the flow of work in the unit.

With Afghan staff members, provides direct technical and management assistance as part of the system designed.

Contributes to the work of the project development advisors and staff by making an input into the project development and application preparation work.

Provides on-the-job training.

In his area(s) of specialty, provides an extra input into the project development, public relations and technical assistance activities of himself and other advisors.

5. Assistant Industrial Engineer

Under the Senior Industrial Engineer, provides direct technical assistance in all areas within his competence.

Acts as a field man and major contact point between the investors and the IPDD.

In his specialty, makes whatever contribution he can to other parts of the program.

Participates in training programs.

## APPENDIX VI

### CHECCHI TEAM AND OTHER ADVISORS TO THE PRIVATE INDUSTRY PROGRAM 1971 - 1974

- Dr. C. H. Zondag, Chief, Private Enterprise Division, USAID/Afghanistan, 1969-74.
- Mr. Thurston F. Teele, Chief of Party, Checchi Team, 1971-74.
- Mr. Lawrence Morrison, Checchi Team, 1971-74.
- Mr. Edward N. Eschbach, Checchi Team, 1971-73.
- Mr. Robert P. Manly, Checchi Team, 1972-74.
- Mr. George Flores, USAID/Afghanistan, 1971.
- Mr. George Thomas, Industrial Engineer, USAID/Afghanistan, 1972-74.
- Mr. Mark Ishige, PCV Accountant, 1972-73.
- Mr. Edward Henry, PCV Accountant, 1972-73.
- Mr. David Millikan, PCV Accountant, 1973-74.
- Mr. Frederick Axelson, PCV Accountant, 1973-74.
- Mr. D. M. Guha, Leather Specialist, UNIDO, 1970-73.
- Mr. Volker Butov, Hendrikson Team, Federal Republic of Germany, 1970-72.
- Mr. Alain Soulard, French Bi-lateral assistance, 1970-73.
- Mr. John Cockcroft, Textile Advisor, U.K.-Colombo Plan, 1970-71.
- Mr. Larz Markin, Food Processing Advisor, UNIDO, 1972-73.



HOME OFFICE PERSONNEL, CHECCHI AND COMPANY

Mr. Harvey A. Lerner

Mr. Pirie Gall

Mr. J. William Grigsby

Mr. Richard Abbott

Ms. Nancie Sammons

Ms. Vicki Morey

Mr. Donald Jones

Ms. Jennifer Messersmith

Ms. Pat McPhelim